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Email hwalker@boultcummings.com

Henry Walker  
(615) 252-2363  
Fax (615) 252-6363

T.R.A. DOCKET ROOM

September 12, 2005

Ron Jones, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Pkwy.  
Nashville, TN 37243

Re: *Application for a Certificate of Convenience and Necessity to Provide  
Competing Telecommunications Services*  
Docket Number: 05-00251

Dear Chairman Jones:

Attached is the application of Bristol Tennessee Essential Services, a municipally owned electric service operating in Bristol, Tennessee, for a certificate of convenience and necessity to provide intrastate telephone service.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By:   
Henry Walker

HW/djc

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**September 12, 2005**

*IN RE: Application of Bristol Tennessee )  
Essential Services for a Certificate of )  
Convenience and Necessity to Provide )  
Competing Telecommunications Services )*

Docket No.: 05-00251

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**APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO  
PROVIDE COMPETING TELECOMMUNICATIONS SERVICES**

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Pursuant to applicable Tennessee Statutes, the Rules and Regulations of the Tennessee Regulatory Authority ("TRA"), Section 253 of the Federal Telecommunications Act of 1996 ("Act") and Tennessee Code Annotated Section 7-52-401, Bristol Tennessee Essential Services ("BTES") respectfully requests that the TRA grant to BTES authority to provide competing local telecommunications services, including exchange access telecommunications services, within the State of Tennessee. BTES is willing and able to comply with all applicable rules and regulations in Tennessee pertaining to the provision of competing local telecommunications services.

In support of its Application, BTES submits the following:

1. The full name and address of the Applicant is:

Bristol Tennessee Essential Services  
2470 Volunteer Parkway  
Bristol, TN 37620  
Telephone: (423) 968-1526  
Fax: (423) 793-5545

Questions regarding this application should be directed to:

Alan D. Ellison  
Harbor Network Services, LLC  
720 Oak Circle Drive  
Mobile, AL 36609  
Telephone: (251) 445-6510  
Fax: (251) 990-6404

With copies or correspondence furnished to counsel listed below.

Contact Name and Address at the company is:

Beth Ringley  
Director of Management Services  
2470 Volunteer Parkway  
Bristol, TN 37620  
Telephone: (423) 793-5531  
Fax: (423) 793-5545

2. Organizational chart of corporate structure.

A current Organizational Chart for BTES is included in Exhibit A.

3. Corporate information:

BTES is a municipal electric system created in 1945 by the City of Bristol as a five (5) member board of public utilities pursuant to the Municipal Electric Plant Law of 1935. BTES presently provides electric service to approximately 32,000 residential, commercial and industrial customers in and around Bristol, Tennessee.

BTES has a fiber optic system connecting each of its 19 substations for its electric system communication and operational purposes. BTES is extending this fiber optic network with a fiber-to-the-home network architecture in its service area in and around Bristol, Tennessee. BTES electric system purposes include outage reporting for individual customers and sections of the BTES system, power restoration notification, load

management, meter reading and pre-paid power opportunities for customers with specific needs.

A fiber-to-the-home system is sometimes shortened to "FTTH" and is sometimes called "fiber-to-the-business" or "FTTB" for business configurations. A fiber-to-the-home architecture is one that provides end to end fiber optic connectivity to each residential, commercial and industrial user located on the network. Upon completion, this network will consist of an approximately 400 route-mile all-fiber optic network designed and constructed by Atlantic Engineering Group, Inc. Atlantic Engineering Group has extensive experience in the areas of design, construction and construction management having provided these services to well over thirty clients since its inception in 1995. Additionally, the FTTH transport network will utilize state of the art electronics designed and manufactured by Alcatel. Alcatel provides communications solutions to telecommunication carriers and Internet service providers for delivery of voice, data and video applications to their customers. Alcatel utilizes its leading position in broadband networks, applications and services, to help its partners and customers build robust, and highly reliable, broadband systems throughout the world. With sales of EURO 12.3 billion and 56,000 employees in 2004, Alcatel operates in more than 130 countries.

The benefits of a FTTH network are numerous but are most immediately recognized in two areas; reliability and capacity. Firstly, the backbone of the FTTH network supports the ability to automatically re-route signal in the event of a physical cut in the network. This capability is provided by the fiber optic equipment used to generate the signal across the strands of fiber optic facility. Upon sensing a loss of signal from equipment on the far end of the network, the equipment automatically reverses the direction of the signal to

traverse the network from another direction. The benefit of this capability is realized by the subscriber in the form of fewer service interruptions, shorter mean time to repair intervals and a higher overall quality of service.

Secondly, the bandwidth available for the delivery of service is dramatically greater than that available from traditional copper-based transport media. The benefit of greater bandwidth is realized by the subscriber in the form of greater choices in service offerings.

BTES will provide telephone and regulated telecommunications services through a separate business unit within BTES. The Telephone Business Unit will be operated in a manner that is financially distinct from the Electric Business Unit and the Cable/Internet Business Unit of BTES. BTES has established cost allocation and affiliate transaction guidelines that will apply to the entire organization and, specifically to this Application, the BTES Telephone Business Unit. A copy of the BTES Cost Allocation Manual, including affiliate transaction guidelines, is attached as **Exhibit B**.

4. BTES possesses the managerial, technical, and financial ability to provide telecommunications service, as demonstrated below:

A. Financial Qualifications:

BTES has the financial capability to provide the applied-for services. Initially, BTES will make available sufficient working capital through an inter-division loan from its Electric Business Unit to its Telephone Business Unit. The BTES Board of Directors has approved an initial inter-company loan in the amount of

\$2,000,000. A copy of BTES' 2004 Annual Report is attached as Exhibit C, demonstrating BTES' ability to fund this inter-division loan.

Collective Exhibit D contains a capital expenditures budget along with pro forma balance sheet, income statement and statement of cash flows for the first three years of the Telephone Business Unit's operations. The capital expenditures budget indicates the type of equipment to be purchased, the anticipated costs and sources for funding of projected capital expenditures.

BTES' financials and projected financials do not reflect any revenues or expenses associated with reciprocal compensation.

A corporate surety bond is provided as Exhibit E.

Thus, BTES asserts that it has the financial resources necessary to operate as a competitive local service provider in Tennessee.

B. Managerial Ability:

BTES has substantial experience with and expertise in facilities-based utility services. As shown in Collective Exhibit F to this Application, BTES has the managerial expertise to successfully operate a telecommunications enterprise in Tennessee. As described in the attached biographical information, BTES' management team has extensive management and business experience with facilities-based utility services.

BTES is managed on a daily basis by its General Manager Dr. R. Michael Browder. For over 40 years, Dr. Browder has demonstrated technical and managerial excellence in public power, as well as skills in organizational leadership and commitment to community service. In addition to managing Bristol Tennessee Essential Services, he has held numerous leadership positions on the local, state and national levels.

Dr. Browder joined Bristol Tennessee Electric System (BTES), now called Bristol Tennessee Essential Services, as director of engineering and operations in 1972, after having served as superintendent of engineering at Huntsville (Alabama) Utilities. In 1977, he was named general manager of BTES.

Through his leadership, BTES has developed into an organization that is recognized throughout the country for its achievements. During his tenure, he has used education and technology to develop an organization capable of serving twice as many customers with nearly half the number of employees.

Dr. Browder has exceeded his goal to manage an electric utility with low rates and high reliability. Electric rates at BTES are among the lowest in the Tennessee Valley, while the organization is extremely financially stable, having spent many years under his leadership debt free. Additionally, a recent survey showed that 94% of BTES customers are extremely satisfied with the service they are receiving.

These achievements, combined with operational efficiencies and technical expertise, are why Dr. Browder led the organization to be the smallest ever to

receive the top award in the state from the Tennessee Center for Performance Excellence. This award, based on the Malcolm Baldrige Criteria, evaluated every aspect of the organization from leadership to process to results.

To supplement the experience and expertise of its internal management team, BTES has retained Harbor Network Services, LLC to consult with the BTES management team during the start-up phase of BTES' telephone operations. Biographical data for the three principals of Harbor Network Services, LLC is also included in **Collective Exhibit F**.

Thus, BTES is qualified from a managerial standpoint to provide local exchange service in Tennessee.

C. **Technical Qualifications:**

BTES has substantial experience with and expertise in facilities-based utility services. As shown in **Collective Exhibit F** to this Application, BTES has the technical expertise to successfully operate a telecommunications enterprise in Tennessee. As described in the attached biographical information, BTES' management team has extensive technical experience with facilities-based utility services.

Specifically, the network supervisor for BTES, Michael Parker, possesses significant experience along with the formal credentials appropriate for operating facility based broadband networks supporting voice traffic. As shown in **Collective Exhibit F** to this Application, Mr. Parker has attained recognition



from industry leading, technology providers as a certified professional. Additionally, Mr. Parker possesses extensive practical experience in the areas of wide area broadband networking and the deployment and ongoing maintenance of voice telephone systems. This experience in the deployment and ongoing maintenance of broadband networks supports BTES' assertion that it possesses the technical competence necessary to successfully operate as a telecommunications service provider in Tennessee.

To supplement the experience and expertise of its internal technical team, BTES has retained Harbor Network Services, LLC to consult with the BTES team during the start-up phase of BTES' telephone operations. Biographical data for three members of the Harbor Network Services firm is included in Collective Exhibit F.

Together, the BTES team and its consultants will work to ensure that BTES' telecommunications services will satisfy the minimum standards established by the TRA. BTES will file and maintain tariffs in the manner prescribed by the TRA and will meet minimum basic local standards, including quality of service and billing standards required of all local exchange carriers regulated by the TRA. In addition, the services of Harbor Network Services, LLC will be available to supplement BTES' internal experience and expertise during the start-phase of BTES' operations.

Thus, BTES is technically qualified to provide local exchange service in Tennessee.

5. Proposed Service Area and Services to be Offered:

A. Geographic coverage area:

With the granting of a certificate by the Tennessee Regulatory Authority, BTES' present plan is to offer local and inter-exchange telephone service to consumers and businesses in the City of Bristol, Tennessee and a portion of Sullivan County, Tennessee. Bristol is located in the northeastern corner of the state of Tennessee, in the county of Sullivan and sits on the border of Tennessee and Virginia. BTES presently serves approximately 32,000 consumers and businesses with electricity and other essential services. BTES plans, with the approval of the Tennessee Regulatory Authority, to begin offering wire-line telephone services to approximately 20,000 consumers and businesses within its existing service footprint. BTES' will expand its telephone service area as its financial circumstances permit.

B. Location of switches:

As described in the following section regarding network equipment, BTES plans to deploy a Class 5 central office switch to provide local and long distance telephone services within the geographic area described in the previous section.

The Class 5 central office switch will be located at:

Bristol Tennessee Essential Services  
2470 Volunteer Parkway  
Bristol, TN 37620

The facility to be constructed for the location of the central office switch shall be designed in a manner consistent with industry expectations of 99.999% service availability.

C. Method of deployment:

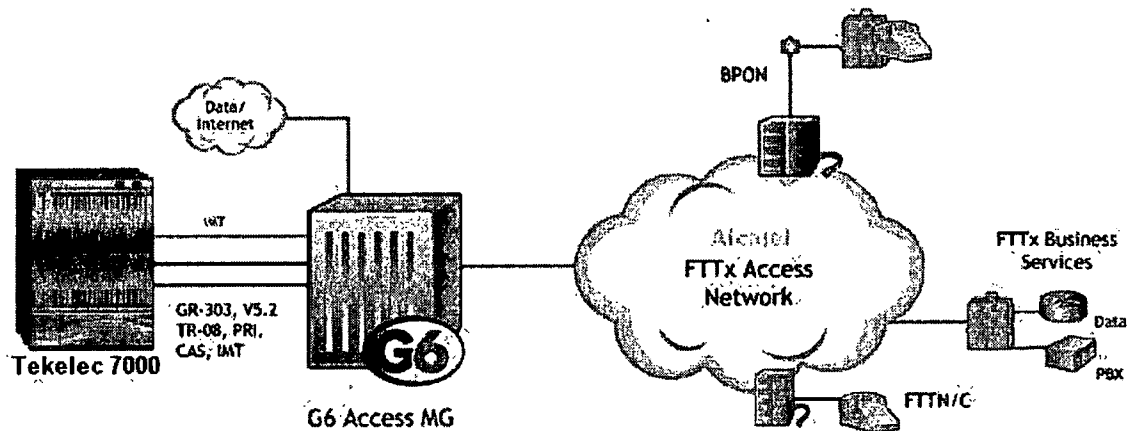
BTES will deploy services to subscribers within its service area using a facility based approach to business. As such, BTES will deploy a central office switching facility compliant with guidelines published by the Rural Utilities Service of the United States Department of Agriculture. Understanding the critical nature of telephone service reliability, BTES will ensure that industry standard specifications are adhered to in the construction, implementation and ongoing operation of its telephone network. Additionally, BTES will deploy its services using its own network infrastructure exclusively rather than purchasing unbundled network elements from the ILEC. The transport network will utilize Passive Optical Network (PON) architecture to transport services from the central office switch to the customer premise.

D. Type of equipment:

A high-level diagram of the BTES network configuration is provided for review in Exhibit G to this application.

BTES will deploy telephone services originating from a Class 5 central office switch, which is functionally equivalent to the Tekelec 7000. The switch will

interface with the PSTN via standard inter-machine trunks (IMT's) using SS7 signaling. Additionally, the switch will interface with the transport network by utilizing a GR-303 gateway provided by General Bandwidth. Delivery of the optical signal to the customer premise will take place over a redundant optical fiber infrastructure using network electronics from Alcatel. The following diagram provides a high level overview of the network configuration for voice services:



E. Services offered:

As a competing local service provider, BTES will offer a wide range of reliable services to the consumers and businesses in its service area. While an exhaustive, detailed listing of services, pricing and policies will be submitted in BTES' tariff filings following approval by the TRA, the following table offers insight into some of the company's planned service offerings.

Local Telephone Service:	Long Distance Telephone Service:
Flat rate local calling (county-wide)	Domestic, Direct Dial Service (1+)
Enhanced vertical features	Domestic, Toll Free Service
Caller ID, Call Return, etc	International, Direct Dial Service (1+)
Access Line Service	International, Toll Free Service

Additionally, BTES understands that with entry into the local exchange communications markets in Tennessee come basic obligations and responsibilities to serve the public interest. Therefore, BTES will:

- Provide access to 911 and E911 emergency service;
- Provide white page directory listings and directory assistance;
- Provide consumer access to and support for the Tennessee Relay Center in the same manner as incumbent local exchange telephone companies;
- Provide free blocking service for 900, 976 type services in accordance with TRA policy;
- Provide Lifeline and Link-up services to qualifying citizens of this state;
- Provide educational discounts in existence as of June 6, 1995 TRA Rule1220-4-8-.04

F. BTES will not impose CPE (Customer Provided Equipment) requirements that would not be compatible with an incumbent carrier. BTES plans to deploy fiber optic infrastructure into the premise of each business and/or residential establishment that subscribes to service from BTES using a PON architecture. In doing so, BTES will install, at its own expense, the necessary electronic equipment to convert the optical signal to an industry standard analog signal compatible with commonly available telephone equipment. As such, BTES will not require the customer to purchase any equipment that is not compatible with that commonly used by the ILEC.

7. Repair and Maintenance

Understanding the importance of high-quality, customer care to users of local telephone service, BTES has made arrangements for its customers to call its customer service department at (423) 968-1526. In addition, customers may contact BTES in any of the following ways:

In Person:	2470 Volunteer Parkway Bristol, TN 37620
In Writing:	P O Box 549 Bristol, TN 37621
Electronic Mail:	customer-care@btes.net
Web Site:	www.btes.net

All contact information will be printed on customers' monthly statement in order to ensure convenient access to company contact information by the customer. Additionally, as stated earlier, the contact person at BTES is Beth Ringley, Director of Management Services, who is extremely knowledgeable about the provider's operations. Mrs. Ringley has an extensive background in the areas of customer care and employee relations. Biographical information for Mrs. Ringley is included in Collective Exhibit F to this Application.

8. Small and Minority-Owned Telecommunications Business Participation Plan:

Consistent with T.C.A. §65-5-212, a copy of BTES's Small and Minority-Owned Telecommunications Business Participation Plan is included with this application as Exhibit H.

9. Applicant has served notice of this application to the eighteen (18) incumbent local exchange telephone companies in Tennessee with a statement regarding the company's intention of operating geographically. See **Exhibit I** for the listing of ILEC's notified.

10. **Toll Dialing Parity Plan:**

Consistent with FCC Docket 96-98, BTES has prepared a Toll Dialing Parity Plan supporting the design and service intentions of its network services area. The Toll Dialing Parity Plan is included with this application as **Exhibit J**.

11. **Numbering Issues:** See **Exhibit K**

12. **Tennessee Specific Operational Issues:** See **Exhibit L**.

13. **Miscellaneous:**

A. Sworn pre-filed testimony: The sworn testimony of R. Michael Browder, P.E., General Manager of BTES, Mr. Dwight Work, Mrs. Beth Ringley and Mr. Alan D. Ellison are attached as **Collective Exhibit M** to this application.

B. Customer deposits will be required in order to establish service at a customer premise. However, BTES reserves the right to waive a required deposit if, based on past payment history or an acceptable score provided by a nationally based credit reporting bureau, the customer demonstrates acceptable ability to pay bills in a timely manner. BTES is committed to including its policy on customer deposits in its tariff filings with TRA as required under the Rules of the Tennessee Regulatory Authority

– Division of Public Utilities, Chapter 1220-4-2-.11.

- C. Tariffs: While not included in this application, BTES is prepared to file all appropriate tariffs with the Tennessee Regulatory Authority subsequent to the granting of a Certificate of Public Convenience by TRA. Additionally, BTES is committed to filing all appropriate tariffs with TRA prior to offering any services to prospective customers. BTES is also committed to filing, in a timely and appropriate manner, all appropriate tariff updates as required by TRA on an ongoing basis.
- D. Identify all other states where certified as a telecommunications provider and the status of states where certification is pending: None.
- E. Applicant's involvement in pertinent mergers, acquisitions, etc.? Provide a chart showing the applicant's corporate structure: Not applicable.
- F. Identify all complaints filed with state and federal regulatory agencies involving your company or affiliated entities. Identify the nature of the complaint, which governmental agency or office received the complaint, how was the complaint resolved? Not applicable.
- G. At this time, BTES does not plan to offer services in areas served by any incumbent local exchange telephone company with fewer than 100,000 total access lines.

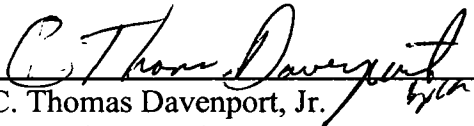


**CONCLUSION:**

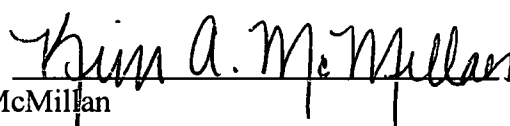
BTES respectfully requests that the TRA enter an order granting it a certificate of convenience and necessity to operate as a competing telecommunications service provider and authority to provide a full range of local exchange on a facilities-based and resale basis throughout the State of Tennessee. For the reasons stated above, BTES' provision of these services would promote the public interest by providing high-quality service at competitive prices and by creating greater economic incentives for the development and improvement for all competing providers.


Respectfully submitted this 12<sup>th</sup> day of September, 2005.

C. THOMAS DAVENPORT, JR.


  
C. Thomas Davenport, Jr.  
General Counsel, BTES  
640 State Street  
Bristol, TN 37620  
(423) 989-6500

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By:   
Kim McMillan

By:   
Henry Walker  
Attorneys for BTES  
1600 Division Street, Suite 700  
P.O. Box 340025  
Nashville, Tennessee 37203  
(615) 252-2363 (H.W.)  
(615) 252-2377 (K.M.)

MILLER & MARTIN, PLLC

By:   
Mark W. Smith  
Attorneys for BTES  
1000 Volunteer Building  
832 Georgia Avenue  
Chattanooga, Tennessee 37402-2289  
(423) 756-6600

## NOTICE

Bristol Tennessee Essential Services has filed an Application for a Certificate of Convenience and Necessity to provide telecommunications services. Copies of the Application can be obtained from the Tennessee Regulatory Authority.

I certify that a copy of this Notice has been served upon the following carriers via U.S. mail:

Ardmore Telephone Company, Inc.  
P.O. Box 549  
517 Ardmore Avenue  
Ardmore, Tennessee 38449

BellSouth  
333 Commerce Street  
Nashville, Tennessee 37201-3300

Century Telephone of Adamsville  
P.O. Box 405  
116 N. Oak Street  
Adamsville, Tennessee 38310

Century Telephone of Claiborne  
P.O. Box 100  
507 Main Street  
New Tazewell, Tennessee 37825

Century Telephone of Ooltewah-Collegedale, Inc.  
P.O. Box 782  
5616 Main Street  
Ooltewah, Tennessee 37363

Citizens Communications Company of Tennessee  
P.O. Box 770  
300 Bland Street  
Bluefield, West Virginia 24701

Citizens Communications Company  
of The Volunteer State  
P.O. Box 770  
300 Bland Street  
Bluefield, West Virginia 24701

Loretto Telephone Company, Inc.  
P.O. Box 130  
Loretto, Tennessee 38469

Millington Telephone Company, Inc.  
P.O. Box 429  
4880 Navy Road  
Millington, Tennessee 38083-0429

Sprint-United  
112 Sixth Street  
Bristol, Tennessee 37620

TDS Telecom-Concord Telephone Exchange, Inc.  
P.O. Box 22610  
701 Concord Road  
Knoxville, Tennessee 37933-0610

TDS Telecom-Humphreys County  
Telephone Company  
P.O. Box 552  
203 Long Street  
New Johnsonville, Tennessee 37134-0552

TDS Telecom-Tellico Telephone Company, Inc.  
P.O. Box 9  
102 Spence Street  
Tellico Plains, Tennessee 37385-0009

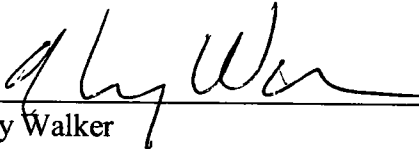
TEC-Crockett Telephone Company, Inc.  
P.O. Box 7  
Friendship, Tennessee 38034

TEC-People's Telephone Company, Inc.  
P.O. Box 310  
Erin, Tennessee 37061

TEC-West Tennessee Telephone Company, Inc.  
P.O. Box 10  
244 E. Main Street  
Bradford, Tennessee 38316

United Telephone Company  
P.O. Box 38  
120 Taylor Street  
Chapel Hill, Tennessee 37034

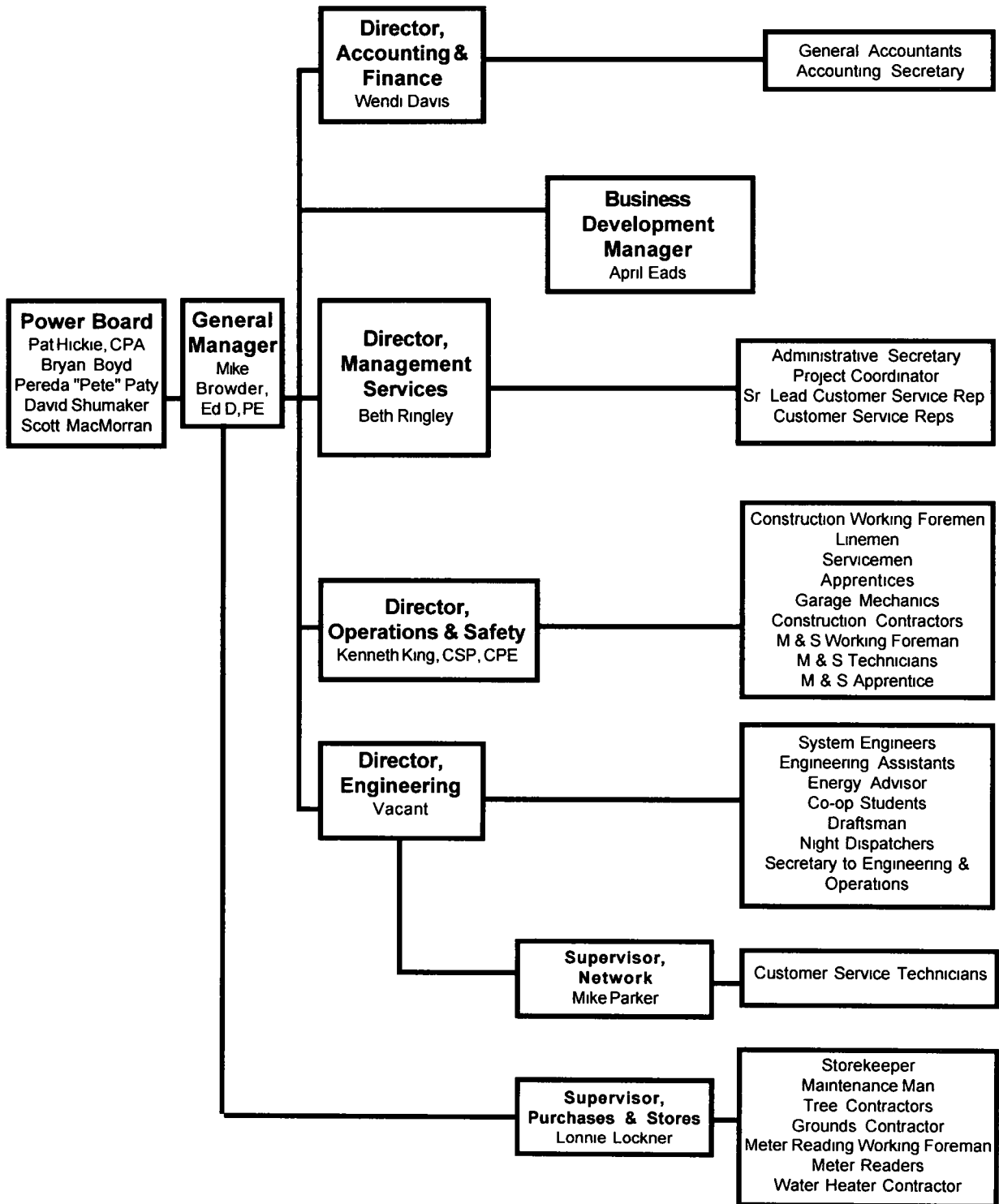
This 12<sup>th</sup> day of September, 2005.

  
Henry Walker

**EXHIBIT A**

**[ORGANIZATIONAL CHART]**

# BTES Organization Chart



**EXHIBIT B**

**[COST ALLOCATION MANUAL]**

**BRISTOL TENNESSEE ESSENTIAL  
SERVICES**

**COST ALLOCATION MANUAL**

**2005 - 2006**



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## INTRODUCTION

Bristol Tennessee Essential Services ("BTES") is a governmental utility created in 1945. BTES provides electric distribution service to customers located in the City of Bristol, Tennessee, Sullivan County, Tennessee and a portion of Washington County, Virginia. This service is a regulated monopoly or non-competitive type service.

BTES plans to provide cable service directly to customers and Internet service directly to customers. BTES also plans to provide telephone service directly to customers as a Competitive Local Exchange Carrier ("CLEC"). To achieve organizational and accounting separation from its monopoly service, BTES has established three business units — one for electric service, one for cable television and Internet and the other for telephone services.

The cable and Internet services are competitive services. The telephone service is also a competitive service. However, the Tennessee Regulatory Authority ("TRA") regulates this service in the same manner as it regulates the service for other CLEC's. BTES will provide the cable and Internet services under Tennessee Code Annotated Title 7, Chapter 52, Part 6, and, it will provide the telephone service under Tennessee Code Annotated Title 7, Chapter 52, Part 4.

## PURPOSE

BTES developed this Cost Allocation Manual ("CAM") due to its expansion into the competitive service market. The CAM describes the cost allocation concepts adopted by BTES as well as the methodology used to allocate costs. The CAM provides BTES management with an equitable process to reduce the potential for cross-subsidization of competitive and non-competitive services and to present a reasonable financial record of each utility service. BTES will review the methodology employed in this manual on at least an annual basis. Changes in this manual must receive prior approval from BTES management through written justification and documentation.

The goals of the allocation methodology included in this manual are to

1. Ensure just and reasonable rates for the ratepayers of the monopoly service.
2. Prevent or limit, to the extent possible, any cross-subsidization from the monopoly service to the other two business units.
3. Minimize the time and expense necessary to record and audit the transactions.

The cost allocation manual recognizes that BTES' business units may share use of certain employees and assets and recognizes that one BTES business unit may also enter into discrete service arrangements, leases or similar transactions for goods or services with another BTES business unit. In order to meet the previously stated conditions, this manual discusses the allocation of costs between business units to minimize any cross-subsidization from the Electric Business Unit to the other business units in those areas and other cases.

BTES maintains a system of accounts that allows the identification and recording of transactions related to each business unit. Using this information, BTES can prepare financial statements showing the financial position and results of operations for each business unit.

Costs assigned to and allocated to each business unit shall be at fully allocated costs. In the case of an annual charge for facilities or assets, the fully allocated costs will include in lieu of taxes,

depreciation expense, maintenance expense, insurance expense, and a return on the investment in the asset. In the case of personnel, the fully allocated cost will include salaries/wages, all employee benefits, payroll taxes, insurance, and pensions.

## ALLOCATION OF COSTS

The general concepts followed in this manual are discussed below.

- BTES will directly assign costs to a specific business unit whenever possible.
- Costs that cannot be directly assigned to a specific business unit are described as common costs. BTES will allocate common costs in accordance with the following hierarchy
  - BTES will allocate, whenever possible, common cost categories based on direct analysis of the origin of the costs themselves
  - When direct analysis is not possible, BTES will allocate common cost categories based on an indirect, cost-causative linkage to another category (or group of cost categories) for which a direct assignment or allocation is available
  - When neither direct nor indirect measures of cost causation can be identified, BTES will allocate the cost category using a general allocator. The numerator of the general allocator is all operation and maintenance expenses directly assigned or attributed to each service, excluding cost of electricity and programming, and the denominator is the total operation and maintenance expense of BTES, excluding cost of electricity and programming.
- For loans made by one business unit to another, BTES will charge the highest rate of interest earned on invested funds
- The Telephone Business Unit will make in lieu of tax payments and will record state, local, and federal taxes in accordance with TCA section 7-52-404
- The Cable and Internet Business Unit will make tax payments in accordance with TCA section 7-52-606.

## DEFINITIONS

**Affiliates** – a branch, division, or subsidiary of a company A company effectively controlled by another company.

**Audit Engagement** – an attestation engagement in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

**Business Unit** – divisions within BTES that provide differing services to customers.

**Cost Allocation Manual ("CAM")** – an indexed compilation and documentation of a company's cost allocation policies and related procedures.

**Cost Allocations** – the methods or ratios used to apportion costs A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as General Allocators)

**Common Costs** – costs associated with services or products that are of joint benefit between competitive and non-competitive business units

**Cost Driver** – a measurable event or quantity that influences the level of costs incurred and that can be directly traced to the origin of the costs themselves.

**Direct Costs** – costs that can be specifically identified with a particular service or product

**Fully Allocated Costs** – the sum of the direct costs plus an appropriate share of indirect costs.

**Indirect Costs** – costs that cannot be identified with a particular service or product This includes, but is not limited to, overhead costs, administrative and general costs, and taxes

**Prevailing Market Price** – a generally accepted market value that can be substantiated by auction, appraisal, or clearly comparable transactions.

**Subsidization** – the recovery of costs from one class of customers or business unit that are attributable to another class of customers or business unit.

## **TRANSACTIONS WITH BUSINESS UNITS**

BTES will record goods or services provided pursuant to a tariff among business units in the appropriate revenue and expenses accounts at the tariffed rate. BTES will record the transfer or sale of non-tariffed goods or services that are provided among business units and provided to unaffiliated outside parties, at the market rate. BTES will record the transfer or sale of non-tariffed goods or services that are not provided to unaffiliated outside parties, among business units at fully distributed cost.

BTES will record assets sold or transferred among business units pursuant to a tariff in the appropriate accounts at the tariffed rate. BTES will record charges for assets purchased from or transferred among business units in the appropriate accounts at the invoice price if that price is determined by a prevailing price held out to the general public in the normal course of business. If a tariff or prevailing price is not available, BTES will record assets sold or transferred from a competitive business unit to a non-competitive business unit at the lower of net book value or estimated fair market value. If a tariff or prevailing price is not available, BTES will record assets sold or transferred from a non-competitive business unit to a competitive business unit at the higher of net book value or estimated fair market value of the asset.



## **BALANCE SHEET ACCOUNTING**

### **Cash**

BTES will maintain a cash account in its general ledger for each business unit. BTES will record all monies collected by a business unit to the appropriate general ledger account. BTES will record all payments applicable to a business unit in the appropriate general ledger account.

### **Accounts Receivable**

Each business unit will maintain its own accounts receivable. BTES will record both billings and payments in the appropriate receivable account.

### **Accounts Payable**

Each business unit will maintain its own accounts payable. BTES will record both invoices received and payments made in the appropriate payable account.

### **Materials**

Each business unit will maintain its own inventory accounts. BTES will record assets subject to inventory in the appropriate accounts as received.

### **Plant Assets**

Each business unit will maintain its own plant accounting system. BTES will record utility plant in the appropriate plant account when it places plant in service.

### **Plant Leased to Competitive Business Units**

When applicable, BTES will lease poles for pole attachments to the Cable and Internet Business Unit and the Telephone Business Unit at the highest rate paid by an outside party for comparable

pole attachments. BTES will lease any other items currently leased to other entities to these business units at the highest rate paid by an outside party for the comparable leased item. BTES will develop a rate for other leased plant that fully recovers the depreciation, maintenance, and other loaded costs of the asset used.

### **Construction Work in Progress**

BTES uses a comprehensive work order system that captures the cost of materials, labor, vehicles, heavy equipment, benefits, and other items related to construction activities. BTES will identify construction activity by business unit and will record the activity to the appropriate account.

### **Depreciation**

BTES will record depreciation by business unit. Depreciation rates will reflect industry normal life spans.

### **Amortization**

BTES will amortize non-tangible assets and assets such as capitalized software over industry normal life spans.

# ACCOUNTING FOR REVENUES AND EXPENSES

## Revenues

BTES will record revenues for each business unit to the appropriate revenue accounts using the accrual basis of accounting

## Expenses

BTES uses the Federal Energy Regulatory Commission ("FERC") system of accounts to assign costs. Employee time, services and other expenses will be assigned to these accounts either directly or using an allocator.

BTES will employ approximately 70 people when the additional business units are added. Of this amount, approximately 40 of the employees will directly assign their time as worked to a business unit using daily time sheets. Of the remaining employees, two will be assigned directly to a business unit. The remaining number work with more than one business unit on a daily basis. Using time sheets for these employees is impracticable. BTES will develop percentages to use to allocate the time of these employees. It will develop these percentages by time studies or other appropriate indicators. BTES will update the percentages no less frequently than annually. It will revise the labor allocations whenever work assignments or other pertinent circumstances change.

BTES will allocate training hours and time spent away from work due to sick leave, holidays, vacations, weather related unassigned time, etc. to business units using the same percentages as the straight-time payroll hours of the affected employees.

BTES will allocate payroll tax expense using the same percentages as straight-time payroll hours.

BTES will allocate employee insurance expense based on straight-time payroll hours for eligible employees.

BTES will allocate property and liability insurance expense on the same basis as the insured item. BTES will allocate insurance on vehicles based on vehicle usage. Some insurance premiums will have no directly assignable basis. BTES will use the General Allocator for these items.

#### Administrative Department

BTES will allocate the common costs in the Administration Department using the General Allocator

#### Management Services Department

The Management Services Department is responsible for human resources, benefits/employee relations, customer/public relations, and secretary to the Power Board. The Management Services Department consists of customer services representatives, a project coordinator, an administrative secretary, and a director.

BTES will directly assign the time and expense of the customer service representatives using an allocation factor based on customer activity captured by the BTES customer information system.

BTES will allocate the common costs associated with the project coordinator and the administrative secretary using the General Allocator.

BTES will allocate the common costs associated with the director using a composite allocation of the employees supervised.

#### Engineering Department

The Engineering Cost Center is responsible for all phases of engineering, planning, construction, and maintenance of facilities required for present and future electrical loads and fiber communications. The Engineering Department is composed of engineers, student night dispatchers, a draftsman, a network supervisor, and an energy advisor.

BTES will directly assign the time and expense of engineers and draftsmen based on timesheets or direct assignment to specific jobs. BTES will allocate time charged to the fiber infrastructure to the business units using the Total Fiber Infrastructure allocation factor.

BTES will directly assign the time and expense of the Energy Advisor to the Electric Business Unit

BTES will directly assign the time and expense of the student night dispatchers using the Total Services allocation factor.

BTES will directly assign the time and expense of the Network Supervisor based on timesheets  
BTES will allocate time charge to the local area network using the General Allocator

BTES will allocate the time and common costs of the director based on the composite allocation of the groups supervised.

#### Operations and Safety Department

The Operations and Safety Department is responsible for construction, transportation, meters and substations, construction contractors, and the safety program. This department is composed of a construction group, a meters and substations group, and a garage mechanics group.

BTES will directly assign the time and expense of the construction and meters and substations groups using timesheets. BTES will allocate time charged by the construction group to the fiber infrastructure using the Total Fiber Infrastructure allocation factor. BTES will allocate time charged by the meters and substations group to substations using the Substations allocation factor

BTES will directly assign the time and expense of the garage mechanics group using the Vehicles allocation factor

BTES will allocate the common costs of the secretary and the director of this department based on the composite allocation of the groups supervised.

#### Accounting and Finance Department

The Accounting and Finance Department is responsible for the development of accounting and financial control policies, preparation of financial statements and budgets, general, payroll, and plant accounting, as well as other accounting related matters.

BTES will allocate this department using the General Allocator.

#### Purchases and Stores Department

This department is responsible for storekeeping, building maintenance, tree and grounds contractors, meter readers, and water heater contractors.

BTES will assign the time and expense tree and grounds contractors and water heater contractors directly to the Electric Business Unit

BTES will assign the time and expense related to meter reading based on timesheets

BTES will allocate the time and expense related to storekeeping based on materials issued

BTES will allocate the time and expense related to maintenance personnel using the General Allocator

BTES will allocate the time and expense related to the Supervisor of this Department based on the composite allocation of the groups supervised

#### Business Development Manager

This person is responsible for working with industry to help coordinate services of the engineering and operations and safety areas of BTES and the Existing Industries Program of the Tennessee

Valley Authority ("TVA"). This person is also responsible for detecting any problems that BTES or TVA might assist in solving, and to identify and contact new and existing industry prospects. This person will also manage cable programming and will be the point of contact for contracts related to cable programming.

BTES will allocate the time and expense related to this employee using average commercial and industrial customers adjusted for an assumed four hours per week dedicated to the cable business unit.

## **CODE OF CONDUCT**

### **Regulatory Compliance**

The Telephone Business Unit of BTES will be subject to all rules and regulations of the TRA in the same manner and to the same extent as other similar telecommunications providers, including without limitation, rules and orders governing anti-competitive practices

### **Treatment of Similarly Situated Parties**

BTES will process all similar requests for the retail services of its non-competitive business unit in the same manner and within the same time-period whether requested on behalf of a business unit of BTES or a third party

### **Anti-Competitive Inducements**

BTES shall not state in any advertising, promotional materials, or sales efforts, that consumers who purchase products or services from its competitive business units will receive preferential treatment in the provision of services from its non-competitive business unit or that any benefits will inure to customers receiving services from its non-competitive business unit resulting from their dealings with its competitive business units.

### **Loans and Credit Guarantees**

The Telephone Business Unit may not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of BTES's non-competitive business unit.

### **General Code of Conduct Provisions**

BTES may not discriminate between the Telephone Business Unit and any other entity in the provision or procurement of information and retail goods and services from its non-competitive business unit, or in the establishment of standards



BTES shall account for all transactions with the Telephone Business Unit in accordance with generally accepted accounting principles or accounting principles established and/or adopted by the TRA

## REPORTING REQUIREMENTS

The Telephone Business Unit of BTES shall report to the TRA on an annual basis:

- 1 the name and address of all business units or other affiliated entities,
- 2 all contracts entered into with business units or other affiliated entities, and all transactions undertaken with any business units or other affiliates without a written contract, excluding allocation of costs;
- 3 the amount of business unit affiliate transactions by business unit by account charged,
- 4 the basis used to record business unit affiliate transactions (i e book value, fair market value, tariff, fully distributed cost);
- 5 total costs allocated or charged back to each business unit or other affiliate;
- 6 updates of the allocation factors used to allocate costs among the business units;
- 7 the financial statement data, as recorded for each BTES business unit, in whatever format the TRA requires, including a copy of BTES's audited financial statements,
8. a computation of all tax allocations for regulatory purposes as follows.
  - a Property Taxes. Computation will be in accordance with TCA section 7-52-404.
  - b State and Local Taxes Computation will be based on applicable tax code.
  - c Federal Income Tax Calculations will involve using the current federal corporate income tax rate multiplied by the net taxable income of the telephone business unit  
BTES may make adjustments and deferments to taxes as appropriate and as used by other entities. For example, taxes may be calculated using allowable tax depreciation rather than book depreciation

BTES shall maintain books of account and supporting documentation in sufficient detail to permit verification of compliance with the cost assignment and allocation principles and the Code of Conduct approved by the TRA.

The TRA may order an audit performed no more frequently than on an annual basis of all matters deemed relevant by the selected auditor. BTES and its affiliated business units will cooperate fully with all requests necessary to perform the audit. The selected auditor will provide the audit report to the TRA on or before six (6) months after the onset of the audit. The selected auditor will provide the audit report to BTES on or before sixty-days (60 days) thereafter.

The TRA shall have access to personnel of the Telephone Business Unit who will be capable of responding to TRA inquiries with respect to, but not limited to, affiliate transactions and the nature of direct and indirect charges and billings between affiliates.

**Bristol Tennessee Essential Services**

**Definition of Allocation Factors**

**Fiscal Year Ending June 30, 2006**

**Appendix A**

# Appendix A

**Cable/Internet and Telephone Services** – percentage derived from a fraction with the numerator being the number of services for the Cable/Internet business unit and the Telephone business unit and the denominator being the total services for the Cable/Internet and Telephone business units.

**Composite Weighted Average of Department** – percentage derived from a fraction with the numerator being the combined payroll hours of each employee in the department directly assigned, indirectly assigned or attributed to each business unit and the denominator being the total payroll hours of the employees in the department.

**Customer Activity** – percentage derived from a fraction with the numerator being the total customer transactions for each business unit and the denominator being the total number of customer transactions for BTES.

**Customer Calls** – percentage derived from a fraction with the numerator being the total number of customer calls for each business unit coming into the work group and the denominator being the total number of call for BTES coming into the work group

**Total Fiber Infrastructure** – percentage derived from a fraction with the numerator being the fiber infrastructure allocated to each business unit and the denominator being the total fiber infrastructure of BTES.

**General Allocator** – percentage derived from a fraction with the numerator being all operation and maintenance expense directly assigned, indirectly assigned or attributed to each business unit, excluding the cost of goods sold for electricity, cable television and telephone, and the denominator being the total operation and maintenance expense of BTES, excluding the cost of goods sold for electricity, cable television and telephone.

**Homes Passed Services** – percentage derived from a fraction the numerator being the homes passed of each business unit related to the joint fiber infrastructure and the denominator being the total homes passed of BTES related to the joint fiber infrastructure of BTES.

**Material Issued** – percentage derived from a fraction with the numerator being the total number of transactions for materials issued and the denominator being the total number of transactions for materials issued for BTES

**Plant in Service** – percentage derived from a fraction with the numerator being the plant in service of each business unit and the denominator being the plant in service of BTES.

**Substations** – percentage derived from a fraction with the numerator being the substation equipment related to the joint fiber infrastructure for each business unit and the denominator being the total substation equipment related to the joint fiber infrastructure for BTES

**Total Services** – percentage derived from a fraction with the numerator being the total services of each business unit and the denominator being the total services of BTES

**Vehicles** – percentage derived from a fraction with the numerator being the straight-time payroll hours, of employees assigned vehicles, directly assigned, indirectly assigned, or attributed to each business unit and the denominator being the total straight-time payroll hours of employees assigned vehicles

# Appendix A

**Weighted Average of Commercial and Industrial Customers** – first calculated by computing the percentage of commercial and industrial customers for each business unit to the total commercial and industrial customers of BTES. Multiply each percentage by thirty-six hours to obtain the estimated hours spent on each business unit. Add four hours to the Cable/Internet business unit. Divide the hours of each business unit by forty hours to obtain the allocation factors.

**Bristol Tennessee Essential Services**

**Cost Allocation Factors Summary**

**Fiscal Year Ending June 30, 2006**

**Appendix B**

## Appendix B

### Cost Allocation Factors Summary Fiscal Year 2006

Job Title	Allocation Method	Electric	Cable and Internet	Telephone
<b>Administration:</b>				
General Manager	General Allocator	81 98%	9.13%	8.89%
Board of Directors	General Allocator	81 98%	9 13%	8.89%
<b>Management Services:</b>				
Director	Composite weighted average of department	80 36%	9 84%	9 80%
Project Coordinator	General Allocator	81 98%	9 13%	8 89%
Secretary	General Allocator	81 98%	9 13%	8 89%
Customer Service Representatives	Customer activity	80 00%	10.00%	10 00%
<b>Engineering:</b>				
Engineers and Draftsmen	Timesheets A/			
Night Dispatchers	Total Services	65.34%	22 15%	12 51%
Network Supervisor	Timesheets B/			
Director	Composite weighted average of department	79 30%	15 64%	5.06%
<b>Operations and Safety:</b>				
Director	Composite weighted average of department	96 32%	2.20%	1 48%
Secretary	Composite weighted average of department	96 32%	2.20%	1.48%
Construction	Timesheets A/			
Meters and Substations	Timesheets C/			
Garage Mechanics	Vehicles	87 71%	8 48%	3.81%
<b>Accounting and Finance:</b>	General Allocator	81.98%	9.13%	8 89%
<b>Purchases and Stores:</b>				
Supervisor	Composite weighted average of department	92 00%	6 00%	2.00%
Storekeeping	Material issued	97.50%	1.25%	1 25%
Building Maintenance	General Allocator	81.98%	9.13%	8 89%
<b>Business Development:</b>	Weighted Average C&I Customers	82 29%	12.57%	5 14%
<b>New Employees:</b>				
Help Desk Personnel	Customer Calls	10 00%	70 00%	20 00%

A/ Time charged to the fiber infrastructure is allocated using the Total Fiber Infrastructure allocation factor

B/ Time charged to the local area network is allocated using the General Allocator.

C/ Time charged to substations is allocated using the Substations allocation factor.



**Bristol Tennessee Essential Services**

**Allocators**

**Fiscal Year Ending June 30, 2006**

**Appendix C**

# Appendix C

## General Allocator Fiscal Year Ending June 30, 2006

<u>Description</u>	<u>Electric</u>	<u>Cable Internet</u>	<u>Telephone</u>	<u>Total</u>
Operation and maintenance expense	\$ 4,439,354	\$ 494,165	\$ 481,305	\$ 5,414,824
Allocation per business unit	81.98%	9.13%	8.89%	100.00%

Applies to the following expenses in addition to salaries/wages in Appendix B:

Audit expense

General liability insurance

Crime insurance

Umbrella insurance policy

Directors' and Officers' liability insurance

General office building rent

# Appendix C

## Services Allocator Fiscal Year Ending June 30, 2006

Description		Electric	Cable Internet	Telephone	Total
Total services		32,000	10,850	6,125	48,975
Allocation per business unit	A/	65.34%	22.15%	12.51%	100.00%
Cable/Internet and Telephone services		0	10,850	6,125	16,975
Allocation per business unit		0.00%	63.92%	36.08%	100.00%
Homes Passed services		20,000	10,850	6,125	36,975
Allocation per business unit		54.09%	29.34%	16.57%	100.00%

A/ Total Services allocation factor applies to the following expenses in addition to salaries/wages in Appendix B

- Postage for billing
- Bills for billing
- Delinquents
- Billing support
- Credit agency
- Legal
- Billing system support
- Money courier
- Postage equipment
- Postmaster
- Answering service

# Appendix C

## Vehicle Allocator Fiscal Year Ending June 30, 2006

Vehicle Number	Electric	Cable Internet	Telephone	Total
16	81.98%	9.13%	8.89%	100.00%
30	81.98%	9.13%	8.89%	100.00%
31	80.36%	9.84%	9.80%	100.00%
32	78.77%	17.32%	3.91%	100.00%
34	20.00%	70.00%	10.00%	100.00%
35	96.00%	2.00%	2.00%	100.00%
36	96.00%	2.00%	2.00%	100.00%
37	96.00%	2.00%	2.00%	100.00%
38	65.00%	25.00%	10.00%	100.00%
40	95.87%	2.50%	1.63%	100.00%
41	98.00%	1.00%	1.00%	100.00%
43	98.50%	1.00%	0.50%	100.00%
44	92.00%	6.00%	2.00%	100.00%
48	96.00%	2.00%	2.00%	100.00%
59	98.50%	1.00%	0.50%	100.00%
60	98.00%	1.00%	1.00%	100.00%
61	98.00%	1.00%	1.00%	100.00%
63	98.50%	1.00%	0.50%	100.00%
70	81.98%	9.13%	8.89%	100.00%
73	98.50%	1.00%	0.50%	100.00%
79	92.00%	5.00%	3.00%	100.00%
Average	87.71%	8.48%	3.81%	100.00%

Applies to the following expenses in addition to salaries/wages in Appendix B  
Auto insurance

# Appendix C

## Employee Hours Allocator Fiscal Year Ending June 30, 2006

Description	Electric	Cable Internet	Telephone	Total
Employee hours	114,617	18,833	10,070	143,520
Allocation per business unit	79.86%	13.12%	7.02%	100.00%

Applies to the following expenses in addition to salaries/wages in Appendix B:

Cell phone service

Data service

Computer networking

Employee events

Office supplies

Employment practices liability insurance

Employee benefits

Workers compensation insurance

# Appendix C

## Plant In Service Allocator Fiscal Year Ending June 30, 2006

Description	Electric	Cable Internet	Telephone	Total
Directly assigned plant in service	\$ 66,193,627	\$ 8,370,001	\$ 1,536,155	\$ 76,099,783
Allocation per business unit	86.98%	11.00%	2.02%	100.00%
Joint plant in service	\$ 6,823,256	\$ 3,701,616	\$ 2,089,622	\$ 12,614,494
Allocation per business unit	54.09%	29.34%	16.57%	100.00%
Existing fiber optic infrastructure	\$ 2,356,498	\$ 799,000	\$ 451,048	\$ 3,606,546
Allocation per business unit	65.34%	22.15%	12.51%	100.00%
Total plant in service	<u>\$ 75,373,381</u>	<u>\$ 12,870,617</u>	<u>\$ 4,076,825</u>	<u>\$ 92,320,823</u>
Allocation per business unit	A/ 81.64%	13.94%	4.42%	100.00%
Total fiber infrastructure	\$ 9,179,754	\$ 4,500,616	\$ 2,540,670	\$ 16,221,040
Allocation per business unit	56.59%	27.75%	15.66%	100.00%

A/

Total Plant in Service allocation factor applies to the following expenses in addition to salaries/wages in Appendix B  
 Property insurance  
 Construction equipment insurance  
 Boiler/Machine insurance

# Appendix C

## Substation Allocator Fiscal Year Ending June 30, 2006

Description	Electric	Cable Internet	Telephone	Total
Directly assigned substation equipment	\$ -	\$ 46,529	\$ -	\$ 46,529
Joint substation equipment	\$ 155,864	\$ 38,694	\$ 14,335	\$ 208,893
Allocation per business unit	74.61%	18.52%	6.86%	100.00%
Total substation equipment	<u>\$ 155,864</u>	<u>\$ 85,223</u>	<u>\$ 14,335</u>	<u>\$ 255,422</u>
Allocation per business unit	61.02%	33.37%	5.61%	100.00%

Substation allocation factor applies to the following expenses in addition to salaries/wages in Appendix B.  
Substation rent

**EXHIBIT C**

**[2004 ANNUAL REPORT]**



**Comprehensive Annual  
Financial Report**

**Bristol Tennessee Electric System**

A Municipal Electric Utility  
of the City of Bristol, Tennessee

Year ended June 30, 2004

Prepared by:

Accounting and Finance Department and General Manager

*Wendi Davis*

Wendi Davis  
Director of Accounting and Finance

*R. Michael Browder*

R. Michael Browder  
General Manager

Bristol Tennessee Electric System  
Comprehensive Annual Financial Report

Year ended June 30, 2004

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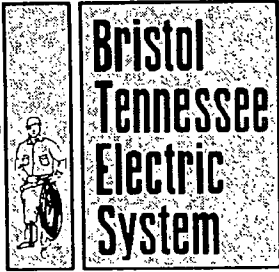
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December 2, 2004

To the Chairman and Members of  
the Power Board of Bristol Tennessee  
Electric System

### Letter of Transmittal

The Comprehensive Annual Financial Report ("CAFR") of Bristol Tennessee Electric System (the "System" or "BTES"), a self-supporting governmental enterprise fund of the City of Bristol, Tennessee operated under the general supervision and control of a five-member Power Board as per Chapter 32 Public Acts of Tennessee 1935, for the fiscal year ended June 30, 2004, is submitted herewith.

The CAFR was compiled by the staff of the Accounting and Finance Department with the close cooperation of our independent auditor. It represents the official report of the System's financial operations and conditions to the citizens, the Board, System management, rating agencies and other interested parties.

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the System. We believe the data, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position and results of operations and cash flows of the System.

All disclosures necessary for the reader to gain a thorough understanding of the System's financial condition have been included.

In order to meet the needs of a broad spectrum of financial statement readers, the CAFR is presented in four sections:

- Introductory Section
- Financial Section
- Statistical Section
- Internal Control and Compliance Section

The **Introductory Section** includes the table of contents, this transmittal letter, an organizational chart of the System, the System's general philosophy, background of the System and a brief recap of fiscal year 2004.

The **Financial Section** is composed of the report of independent auditors; Management Discussion and Analysis, including a narrative introduction, financial overview and financial analysis; and the financial statements. The notes to the financial statements are considered an integral and essential part of adequate disclosure and fair presentation of the financial statements.

## Letter of Transmittal (continued)

### FINANCIAL INFORMATION

#### *THE SYSTEM AS AN ENTERPRISE FUND*

The System operates under an independent Power Board as an enterprise fund of the City of Bristol, Tennessee. This being the case, the System funds its expenditures through its rates and charges and receives no income from City taxes. The System establishes rates annually to provide for anticipated cash outlays for operating expenses and capital improvement requirements.

#### *ACCOUNTING SYSTEM AND BUDGETARY CONTROL*

The System's financial accounting system is based on accounting principles generally accepted in the United States of America. Internal accounting controls are an integral part of the System's accounting process and are designed to provide reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition and that records used for preparing financial statements and maintaining asset accountability are reliable.

The System applies Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Consistent with other public utility enterprise funds, the System has elected not to adopt the FASB Statements and Interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting."

The System's Power Board approves the System's annual budget for its recommended rate, expenses and capital outlays. An analysis of revenue and operating expenses for the year ended June 30, 2004, is provided in the Financial Section of this report.

#### *ELECTRIC PLANT*

Electric plant is stated at cost, which includes cost of contract work, labor, materials and allocated indirect charges. Major renewals and betterments are capitalized, while minor replacements and repairs are expensed as incurred. Property, plant and equipment is depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The provision for depreciation does not include depreciation on transportation equipment per Federal Energy Regulatory Commission Guidelines. Those amounts are reported as operation expenses in the Statements of Revenues, Expenses and Changes in Net Assets. The cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation when property is removed from service.

#### *CASH MANAGEMENT*

The System's moneys are deposited in banks insured by the FDIC. Investments permitted include obligations of the U.S. Treasury and U.S. agencies and certificates of deposit. Temporary investments, consisting entirely of certificates of deposit, are stated at cost which approximates fair value. The cash management performance for the year ended June 30, 2004, produced interest earnings of \$220,066.

## BACKGROUND INFORMATION

On June 30, 1945, the Tennessee Valley Authority (TVA) purchased the properties of East Tennessee Light and Power Company Bristol Tennessee Electric System (BTES) was started July 1, 1945 as a result of a referendum in which the citizens of Bristol, Tennessee voted to purchase from TVA a portion of these properties. A \$1.3 million issue of Electric Light and Power bonds was required to finance the transaction. BTES immediately agreed to terms of a 20-year power contract for TVA to supply power which BTES distributed to the public at substantially lower rates.

As per Chapter 32 Public Acts of Tennessee 1935 and the contract with TVA, a five-member Power Board was established by the City to have general supervision and control of the municipally-owned electric system with one member serving from City Council. Current board members include Pereda R. "Pete" Paty, Patrick W. Hickie, Jr., Bryan K. Boyd, J. Scott MacMorran and City Council representative John S. Gaines.

The International Brotherhood of Electrical Workers (IBEW) has represented the trades and crafts employees since prior to TVA purchasing the system from East Tennessee Light and Power.

Sixty BTES employees serve over 31,000 customers in Bristol, Tennessee, Sullivan County and a portion of Washington County, Virginia (approximately 280 square miles of service area).

BTES purchases electric power from the Tennessee Valley Authority (TVA), the nation's largest public power generator of electricity. Our customers pay approximately 5.6 cents per kilowatt hour while the national average is 8.5 cents per kilowatt hour. BTES has had seven rate reductions since June 1982 with the most recent in October 1997. This does not include changes in wholesale power costs from TVA. In October 2003, TVA added an environmental charge to their rate to cover the cost of certain air pollution equipment. This effectively raised the rates on residential customers by 6% and small general power customers by 7%.

The electricity we purchase from TVA is delivered at 161,000 volts to our two delivery points, Bluff City Primary and Blountville Primary Substations. We step it down to 69,000 volts for subtransmission to other substations and to 13,200/7620 volts for distribution. In some cases, small distribution substations provide additional voltage reduction to large general power loads. The voltage entering a customer's home is 120/240 volts which is utilized for lighting, heating and operating household appliances. Businesses and industries may be served at 208/120, 480/277, 4160/2400 volts or other standard voltages.

In 1994, BTES received the American Public Power Association's prestigious E. F. Scattergood System Achievement Award for outstanding achievement by a utility.

## RECAP OF FISCAL YEAR 2004 (continued)

We built 15 spans of three-phase distribution line to serve the Super Wal-Mart and added over 15,000 kVA of three-phase transformers to serve Exide Plant, Bristol Motor Speedway, Bristol Wastewater Treatment Plant, King Pharmaceuticals, Polymer Industrial Products and other smaller industrial loads. The traffic lights were installed at the intersection of Volunteer Parkway and Century Boulevard and street lights were added along a section of Highway 126 in Bristol and Highway 390 in Bluff City.

We installed over 13,000 feet of underground primary conductors to service new customers including 27 lots in Deer Field at Fairfield Subdivision and 65 condominiums in Rolling Brook Subdivision.

Nine reels of fiber optic cable were installed along 27 miles of existing distribution pole lines to interconnect existing substations to the Power Service Center.

A power transformer at Vance Substation failed this year and was replaced with a new 12/16/20 mVA power transformer.

In October 2003, TVA added an environmental charge to their rate to cover the cost of certain air pollution equipment. This effectively raised the rates on residential customers by 6% and small general power customers by 7%.

Forty-one BTES employees participated in an Organizational Behavior course at BTES in 2004. Every Thursday night for twelve weeks participants spent two hours in the evening learning more about themselves and teamwork. The concepts were immediately put into practice. Participants were divided into seven teams that worked on real BTES projects. In the last two sessions, they gave reports on their projects.

Our outage time per customer was 94 minutes for calendar year 2003.

During the last five years, we have been able to maintain our goal of a five-year tree clearance cycle. We continue to monitor frequency of tree-caused outages by areas and make more frequent visits to these areas. In 2003-2004, we cleared trees along feeder lines at King College Substation circuits 214 and 224, Industrial Substation circuits 254, 214 and 224; Ruthton Substation circuits 234, 274 and 254; Airport Substation circuits 224, 214 and 234; Adam's Chapel Substation circuits 214, 224 and 254 and Pemberton Substation circuits 214 and 224.

Our goal is to maintain the distribution transformer capacity ratio to 200 percent of peak demand or less. We continue to work to improve this number. We will reinstitute our transformer loading program to help us predict new customer demand needs. The transformer loading program will assist us in identifying transformers that we will investigate for being heavily loaded and change if necessary.

## RECAP OF FISCAL YEAR 2004 (continued)

Our bad debts, as a percentage of retail revenue, averaged 0.175 percent for the first ten months of fiscal year 2004, which is well below our stated goal of 0.25 percent. The industry target is 0.4 percent. This has been accomplished in a variety of ways. We diligently work to prevent customers from falling too far behind in paying their electric bill. We thoroughly screen new applications to determine inclination to pay. In an effort to help those in need find necessary funding, we work with area churches, the Salvation Army, United Way, the Upper East Tennessee Human Development Authority and other customers via our "Help Your Neighbor" program. Our deposit procedure seems to be working well. Residential customers who demonstrate a history of paying their bills in a timely manner may have their deposit waived. A general power customer with a calculated standard deposit of \$10,000 or less which has a principal owner who has lived on our system five or more years with good pay and credit history and is willing to guarantee the account, may have the deposit reduced or waived. To date, no adverse effects have been detected.

We have been prepaying our power bill. Under this arrangement, we use an automated clearing house to send our money to TVA before actual payment is due. In return, we receive "interest" payments from TVA for the amount of their cost of short-term borrowing. This is used when TVA's rate is higher than we are able to receive through other investment vehicles.

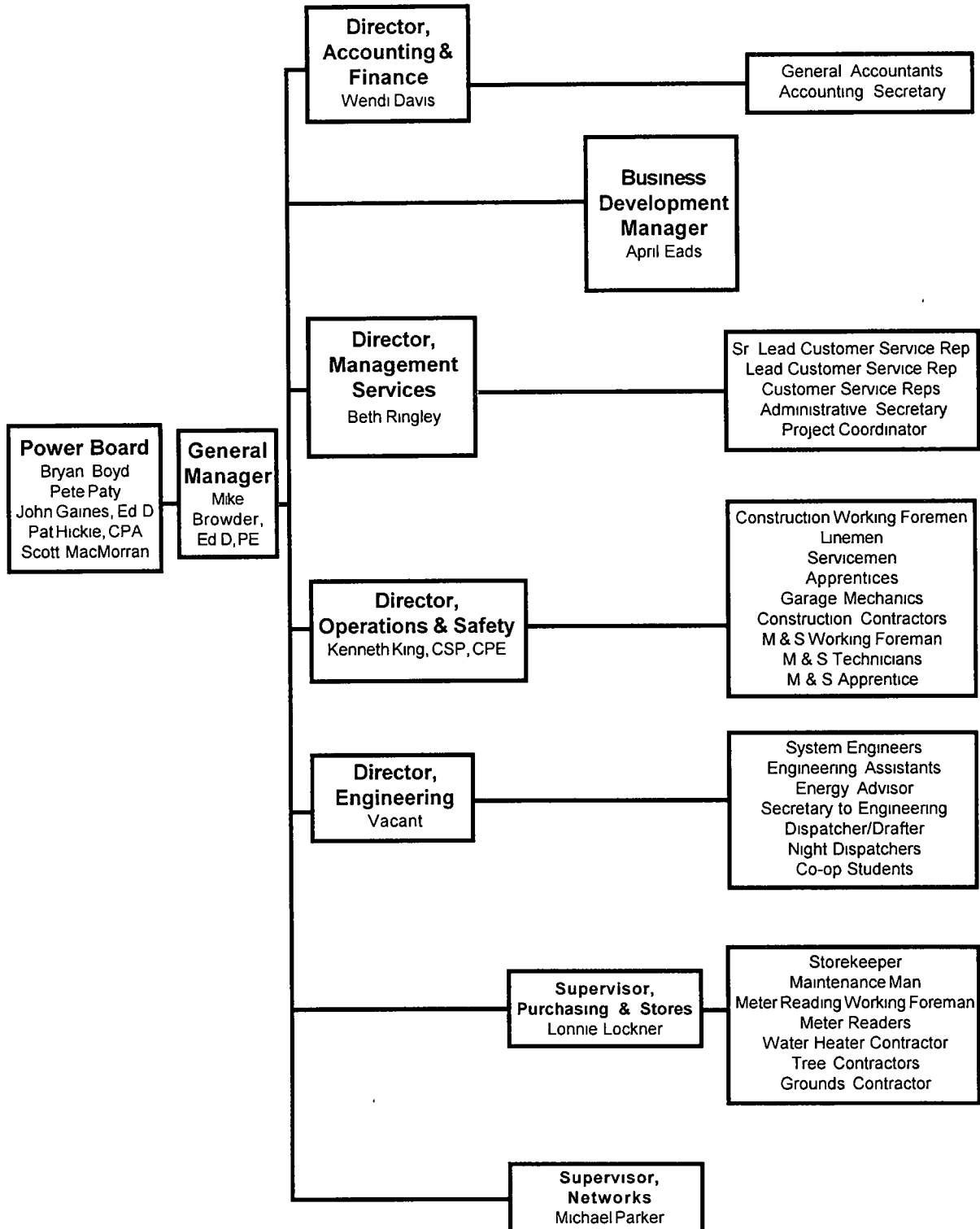
In December 2002, we purchased \$8 million of Discounted Energy Units from TVA. Our participation in the program will assure a long-term supply of power at a low price and increase our return on investments. Over a ten year period, our power bill will be discounted by the principle and interest earned.

Efforts to increase sales of electricity continued. Efforts are ongoing to increase the use of heat pumps and electric water heaters, especially water heaters that can be switched off during peak-demand periods. During calendar year 2003, we inspected 186 heat pump installations and installed 775 water heaters. BTES has over 11,770 load-managed water heaters. During calendar year 2003, TVA paid us \$640,578 for the ability to cycle these water heaters off during peak times. More than 40 loans were made through the Energy Savings Loan Program at a total of \$187,962. Advertising, direct involvement with customers through our Homebuilders Association Spring Home Show, health fair booths, other events and communicating through our customer newsletter and electric bill messages continues to help add growth in these areas.

We continue to make subdivision development agreements available to developers. Instead of initially collecting the total cost for electric facilities installed to serve subdivisions, we offer to waive all or part of these costs for developers who agree to have all-electric homes with inspected heat pumps and load-managed water heaters built in their developments. Total costs are charged for any lots on which homes are built that are not all-electric. We presently have 447 lots in 21 subdivisions covered under this type agreement.

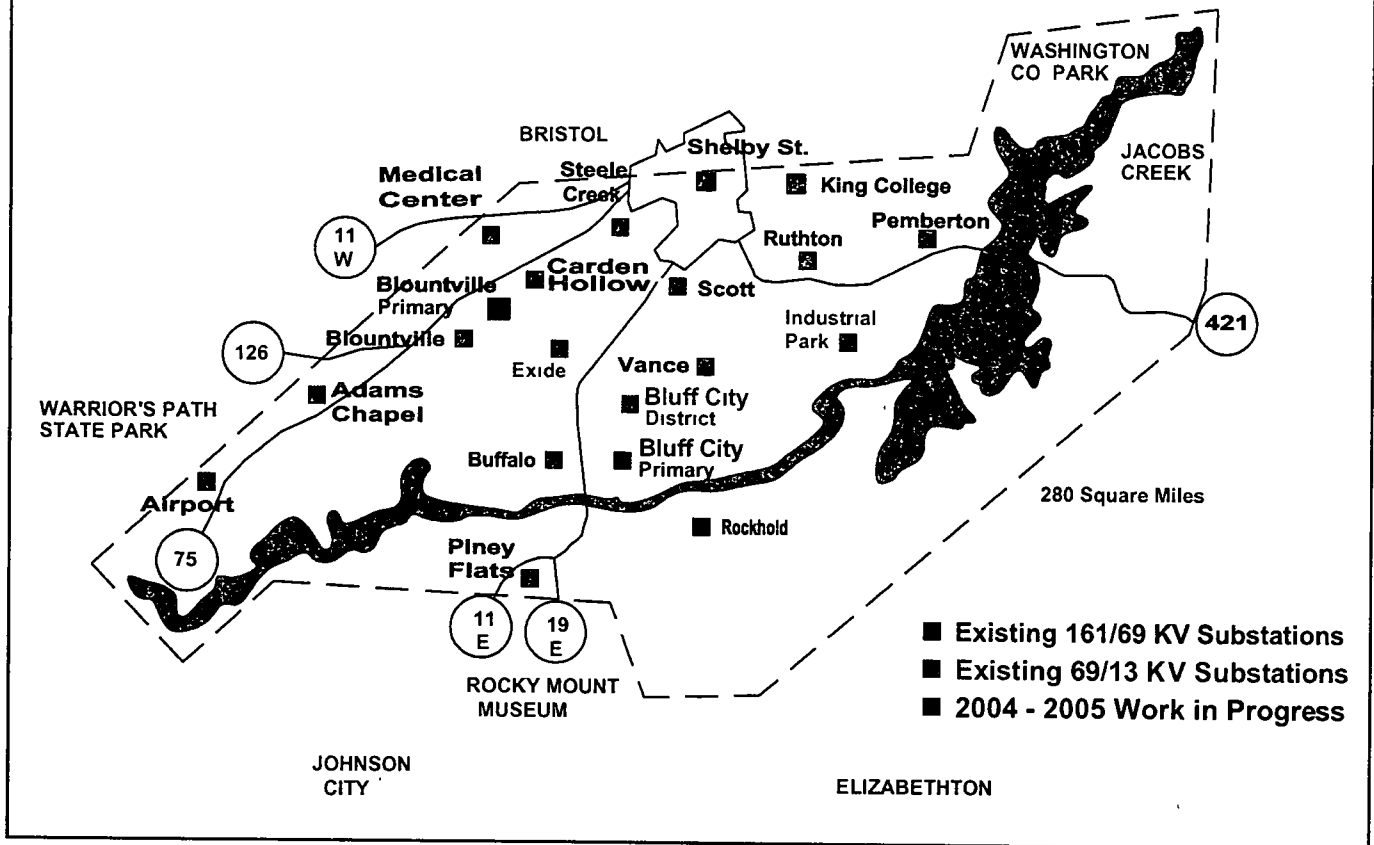
# Organization Chart

## June 2004





## BTES SERVICE AREA



## Substations Owned and Operated by BTES

Bluff City Primary	*161/69 KV	200 MVA
Blountville Primary	*161/69 KV	200 MVA
Adams Chapel	69/13 KV	20 MVA
Airport	69/13 KV	20 MVA
Blountville	69/13 KV	25 MVA
Bluff City	69/13 KV	50 MVA
Buffalo	69/13 KV	20 MVA
Carden Hollow	69/13 KV	20 MVA
Exide	69/13 KV	40 MVA
Industrial Park	69/13 KV	20 MVA
King College	69/13 KV	20 MVA
Medical Center	69/13 KV	20 MVA
Pemberton	69/13 KV	20 MVA
Piney Flats	69/13 KV	20 MVA
Scott	69/13 KV	20 MVA
Shelby Street	69/13 KV	80 MVA
Steele Creek	69/13 KV	20 MVA
Ruthton	69/13 KV	10 MVA
Vance	69/13 KV	25 MVA

\*Delivery Point from TVA

### Substations in the 2004-2005 Work Plan

Rockhold	69/13 KV	20 MVA
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## Electric Utility Terms (continued)

**Delivery Point** - The point, usually a substation, to which electricity is transmitted from its generating sources

**Demand** - The rate at which electric energy is delivered to a system. The primary source of demand is the power consuming equipment of the customers

**Depreciation** - Charges made against income to equitably distribute the cost of the decrease in plant value during the period when services are obtained from use of the facilities. The decrease in plant value is caused by wear, deterioration or obsolescence

**Deregulation** - Movement of an industry from one of monopolistic entities or environments to one free market enterprise, in the electric industry this involves elimination of service area and rate restrictions and obligation to serve; results in distributor choice of supplier and eventually customer choice of supplier

**Dispatching** - The control of an electric system involving switching substations, transmission/distribution lines and other equipment. Monitoring and operating the SCADA system. Dispatching crews for emergencies and maintaining a log of work locations and purpose for outside crews

**Distribution System** - A system that enables delivering electric energy at 2.4 kV to 25 kV from convenient points (substations) on the transmission system to the customers

**Earth Coupled Heat Pump** - An efficient electrical device that heats or cools by moving heat into or out of a building. It uses an antifreeze solution or refrigerant in a pipe buried in the ground to collect or disperse heat. Also called geothermal system, ground source heat pump or water source heat pump

**Easement** - A right obtained from property owners that allows utility companies to construct, operate, maintain, and control facilities such as transmission lines on the property

**Eminent Domain** - The right of government to take, or to authorize the taking of, private property for public use, just compensation usually being given to the owner

**Electric Current** - The flow of electric charge in a conductor between two points having a difference in potential, generally expressed in amperes

**Electric and Magnetic Fields (EMF)** - Radiation surrounding conductors that carry electricity - present wherever electric power is being used

**Fault** - A point of defect in an electric circuit that prevents the current from following the intended course.

**Fiber Optic Cable** - Cable capable of conducting modulated light transmission over a glass strand

**Fiber Optic System** - A system which includes fiber optic cable plant, along with the necessary electronics, amplifiers, splitters, splice points and termination points to provide end-to-end communications and are capable of transporting voice, video and data over long distances

**Insulator** - A non conductor, usually of glass or porcelain, for insulating and supporting electric wires

**Kilowatt** - The basic unit of electric demand, equal to 1,000 watts - average household demand is 10 to 20 kilowatts

## Deregulation Dictionary

The following are terms that you may encounter when reading about upcoming deregulation in the electric utilities industry

**Access Charge** - a charge levied on a power supplier, or its customer, for access to a utility's transmission or distribution system. It is a charge for the right to send electricity over another's wires

**Aggregator** - an entity that combines the needs of several smaller customers into a larger block of power in order to get a better price

**Capacity** - the amount of electricity for which a generating plant or transmission system is rated.

**Commercial Customer** - non-manufacturing business customer

**Customer Choice** - allows retail customers to select the power supplier or generator they buy electricity from

**Demand** - the amount of power a customer takes at a given moment

**Direct Access** - the ability of an electric end-user to connect directly with a power supplier, thus bypassing its local utility

**Distribution System** - local delivery system of electricity to the retail customer's home or business through distribution lines. BTES is a distribution system

**Electric Cooperative** - a member-owned electric utility company that distributes electricity on a nonprofit basis. Example: Mountain Electric Cooperative

**Federal Energy Regulatory Commission (FERC)** - the agency that has jurisdiction over natural gas pricing, hydroelectric licensing, oil pipeline rates and gas pipeline certification.

**Generation Company (genco)** - an entity that operates electricity-generating plants. The genco may own the generation plants or interact with short-term marketers on behalf of plant owners.

**Independent Power Producer (IPP)** - a private entity that generates electricity and sells it to other businesses, including utilities

**Independent System Operator (ISO)** - the independent operator of a transmission system, responsible for guaranteeing open access, scheduling, system reliability and accounting

**Industrial Customer** - business customer engaged in manufacturing.

**Investor-owned Utility (IOU)** - a stockholder-owned power company that generates and distributes electric energy for profit. Example: American Electric Power

**Municipal** - electric distribution system owned by a city to provide service for its residents. Example: BTES

**Non-power Services** - includes such services as gas, home security and telecommunications

**Power Marketer** - an entity that provides bulk wholesale power for use at a specific place and time. The marketer may or may not generate the power. Example: Cinergy

**Regional Transmission Organization (RTO)** - FERC Order 2000 requires all investor-owned utilities to consider joining a RTO

**Retail Wheeling** - a system in which individual retail electric customers are allowed to choose their electric supplier. Also known as retail competition



## Report of Independent Auditors

Power Board  
Bristol Tennessee Electric System

We have audited the accompanying balance sheets of Bristol Tennessee Electric System (the "System"), an enterprise fund of the City of Bristol, Tennessee, as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the System and are not intended to present fairly the financial position and results of operations of the City of Bristol, Tennessee, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bristol Tennessee Electric System at June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the System determined that Governmental Accounting Standards Board Statement No. 34 requires internal tax equivalent payments to the City of Bristol, Tennessee be reported as transfers. The amounts have previously been reported as an expense of the System. Accordingly, the 2003 financial statements have been restated to reflect this change.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2004, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Power Board  
Bristol Tennessee Electric System

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the financial statements but is supplementary information required by generally accepted accounting principles in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information listed in the introductory and statistical sections of the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the System. Such information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

*Coulter & Justus, P.C.*

September 14, 2004

# Bristol Tennessee Electric System

## Management's Discussion and Analysis

**June 30, 2004**

This discussion and analysis is intended to be an introduction to the financial statements and notes that follow this section and should be read in conjunction with them. Bristol Tennessee Electric System (the "System") implemented the Governmental Accounting Standards Board's ("GASB") Statement No 34 ("Statement 34"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, for the comprehensive annual financial report for the year ended June 30, 2002. This section will provide narrative discussion and analysis of the financial activities of the System. The financial performance of the System is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The Introductory Section covers management's letter of transmittal and other System information.

### Financial Statement Overview

The financial statements herein are comprised of the Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying Notes to Financial Statements.

The System is a self-supporting enterprise of the City of Bristol, Tennessee operated under the general supervision and control of a five-member Power Board as per Chapter 32 Public Acts of Tennessee 1935. The System issues a comprehensive annual financial report which is incorporated in the City's comprehensive annual financial report.

### Operating Highlights

#### Net Assets and Capital Assets

As indicated in Table 1, net assets were \$58,411,545 in 2004, compared to \$56,753,318 in 2003, and \$55,643,424 in 2002. Approximately 55% of the 2004 net assets are invested in capital assets. All remaining net assets are unrestricted and can be used for on-going operations of the System, although the Power Board has established a renewal and replacement fund totaling \$8,000,000 for future construction, improvements and extensions of the System.

**Table 1**

Bristol Tennessee Electric System Condensed Balance Sheets June 30,			
	2004	2003	2002
Current and other assets	\$ 33,241,589	\$ 31,790,663	\$ 31,296,910
Capital assets	31,895,221	31,567,958	29,297,114
Total assets	65,136,810	63,358,621	60,594,024
Current liabilities	6,725,265	6,605,303	4,950,600
Total liabilities	6,725,265	6,605,303	4,950,600
Net assets			
Invested in capital assets	31,895,221	31,567,958	29,297,114
Unrestricted	26,516,324	25,185,360	26,346,310
Total net assets	\$ 58,411,545	\$ 56,753,318	\$ 55,643,424

## Management's Discussion and Analysis (continued)

**Table 3**

Bristol Tennessee Electric System Changes to Utility Plant in Service Years ended June 30,			
	2004		2003
Utility plant in service beginning	\$ 61,380,163	\$	58,712,902
Increases	2,998,387		3,193,162
Decreases	1,071,778		525,901
Utility plant in service ending	\$ 63,306,772	\$	61,380,163

Note. Utility plant in service does not include non-utility property or construction work in progress

### Results of Operations

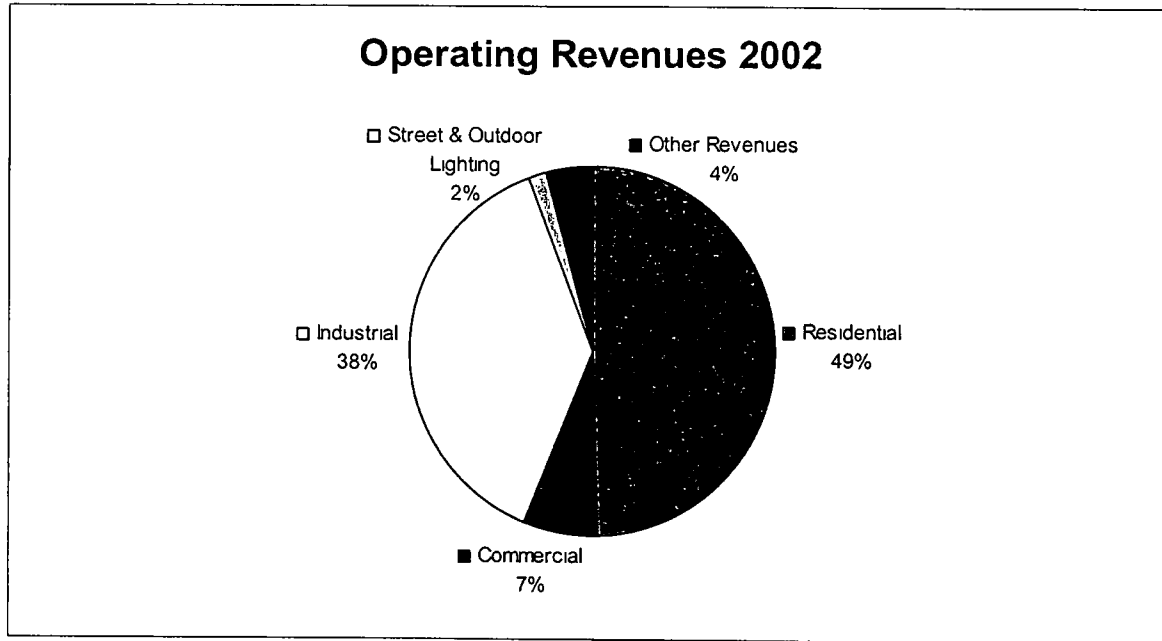
As indicated in Table 4, net assets of the System increased by \$1,658,227 from fiscal year 2003 to 2004 and increased by \$1,109,894 from fiscal year 2002 to 2003. Operating revenues were principally derived from retail sales of electricity. Operating revenues were \$57,758,354 in 2004 as compared to \$53,346,617 in 2003, and \$49,995,435 in 2002; resulting in an 8.3% increase from 2003 to 2004 and a 6.7% increase from 2002 to 2003. Temperature throughout the year has historically been a main driver of electric sales. However, in October 2003 a rate increase of approximately 6% for residential customers and 7% for small general power took effect. Operating revenues are characterized in four major customer class types: residential, commercial, industrial and street and outdoor lighting, plus other revenue. The percentage of total operating revenue by category has stayed consistent from 2002 to 2004. See Figures 1, 2 and 3. As shown in Table 4, the internal tax equivalent payments made to the City of Bristol, Tennessee are reported as transfers. These amounts were previously reported as an expense. These changes were due to requirements of Statement 34. Fiscal year 2003 has been restated to reflect the change. The effective on net assets in fiscal year 2002 was not significant.

**Table 4**

Bristol Tennessee Electric System Condensed Statement of Revenues, Expenses and Changes in Net Assets Years ended June 30,			
	2004	2003 (Restated)	2002
Revenues			
Operating revenues	\$ 57,758,354	\$ 53,346,617	\$ 49,995,435
Non-operating revenues	628,270	586,380	591,180
Total Revenues	58,386,624	53,932,997	50,586,615
Expenses			
Purchased power	48,328,235	44,700,229	41,631,320
Operation expenses	2,742,670	2,599,092	2,412,090
Maintenance	2,634,557	2,532,830	2,319,609
Depreciation	1,897,728	1,960,025	1,917,691
Tax equivalents	212,113	205,435	195,369
Social security taxes	206,462	213,225	192,984
Interest exp on customer deposits	6,612	6,409	10,962
Total Expenses	56,028,377	52,217,245	48,680,025
Transfers out – tax equivalents to City of Bristol	(700,020)	(605,858)	(665,529)
Changes in Net Assets	1,658,227	1,109,894	1,241,061
Beginning net assets	56,753,318	55,643,424	54,402,363
Ending net assets	\$ 58,411,545	\$ 56,753,318	\$ 55,643,424

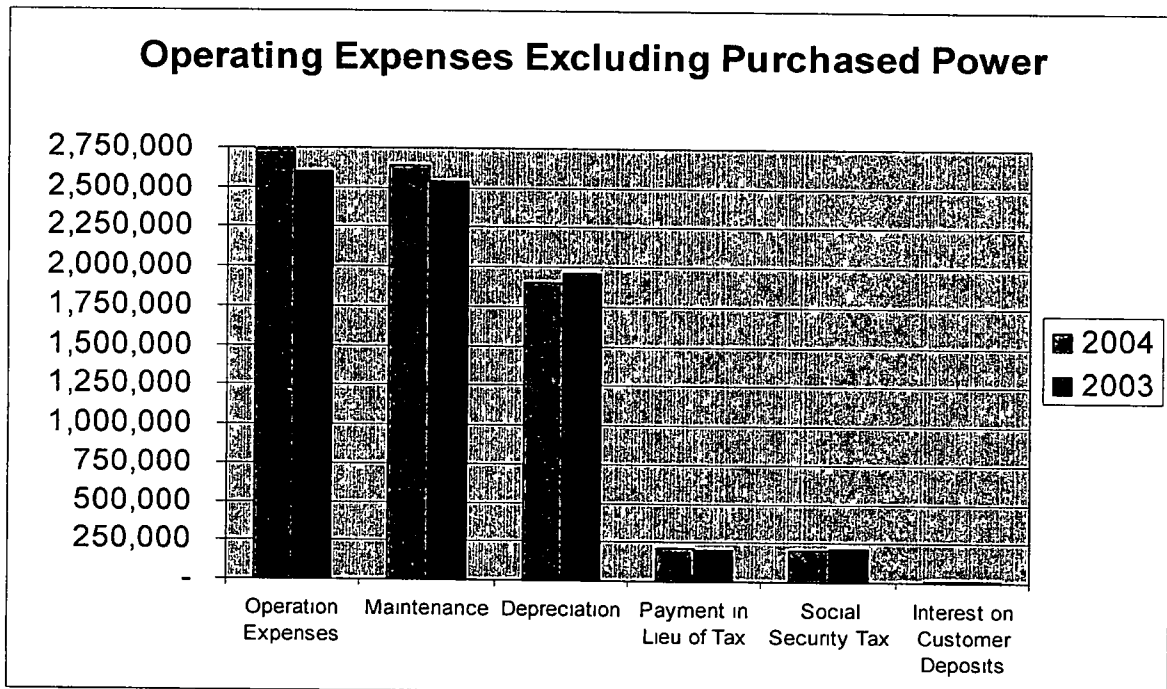
Management's Discussion and Analysis (continued)

Figure 3



Operating expenses, not including purchased power, increased from 2003 to 2004, as indicated in Figure 4. The total was \$7,700,142 in 2004 compared to \$7,517,016 in 2003, resulting in a 2.4% increase.

Figure 4





## **Management's Discussion and Analysis (continued)**

### **Debt**

The System does not have bonds or notes payable for the years ended June 30, 2004 and June 30, 2003. However, the System posts interest on customer deposits on a monthly basis. The interest rate is based on the passbook savings account at local financial institutions and is reviewed from time to time. The annual interest rate for deposits was 0.6% as of June 30, 2004. The interest paid was \$6,612 for the year ended June 30, 2004 and \$6,409 for the year ended June 30, 2003. As shown in Figure 3, interest on deposits is insignificant compared to total operating expenses. The decrease in the Federal Reserve's prime rate has pushed the interest rates downward.

### **Payment In Lieu of Taxes**

The System makes an in-lieu-of-tax payment to the municipalities and counties in which it sells power and has electric utility plant. For the City of Bristol, Tennessee, City of Bluff City, Tennessee and Sullivan County, Tennessee, the in-lieu-of-tax payment is based on the formula provided by the State of Tennessee Municipal Electric System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). For Washington County, Virginia, the in-lieu-of-tax payment is based on the real property tax rate of the electric utility plant. The total in lieu of taxes paid during the years ended June 30, 2004 and 2003 were approximately \$910,000 and \$810,000, respectively.

### **Non-Operating Revenue**

Interest from investments increased from \$586,380 in 2003 to \$628,270 in 2004, resulting in a less than 7.1% increase. As shown in Table 4, interest from investments is categorized as non-operating revenue. The System continues to look for ways to maximize their earnings, such as the TVA's Discounted Energy Units Program discussed below.

### **Discounted Energy Units (DEU) Program**

The System invested \$8,000,000 in TVA's Discounted Energy Units ("DEU") Program in December 2003. The goal of the DEU Program is to create a financial partnership between TVA and its distributors, such as the System, to help finance the re-start of the Browns Ferry Unit One power generator. This facility uses nuclear fuel to generate electricity. The potential benefits for the System are to ensure a reliable, low-cost power supply and provide a vehicle to better use operating cash and improve working capital liquidity. This program provides the System discounted monthly electric purchases that are equal to the monthly principle and interest payments. The discount rate is 5.5% and has a term of 10 years. The System may borrow against part of the DEU investment in emergency situations, if needed. During 2004 and 2003, the System recognized \$408,204 and \$233,820, respectively, in interest income from the amortization of the DEU's which is included in non-operating revenues discussed above.

# Bristol Tennessee Electric System

## Balance Sheets (continued)

June 30, 2004 and 2003

	June 30	
	2004	2003
		(Restated)
<b>Liabilities and net assets</b>		
Current liabilities:		
Trade accounts payable	\$ 526,601	\$ 1,143,644
Accrual for unbilled power expense	2,510,084	1,862,321
Customer deposits and prepayments	1,943,072	1,774,042
Due to City of Bristol, Tennessee:		
Economic development funds passed through from		
Tennessee Valley Authority	811,039	944,011
Other	56,618	—
Other accrued liabilities	877,851	881,285
Total current liabilities	6,725,265	6,605,303
Net assets:		
Invested in capital assets	31,895,221	31,567,958
Unrestricted	26,516,324	25,185,360
Total net assets	58,411,545	56,753,318

Total liabilities and net assets

\$65,136,810      \$63,358,621

*See accompanying Notes to Financial Statements*

Bristol Tennessee Electric System  
Statements of Cash Flows  
Years ended June 30, 2004 and 2003

	Year ended June 30 2004	2003 (Restated)
<b>Cash flows from operating activities</b>		
Cash received from customers	\$54,322,743	\$52,984,752
Cash received from City of Bristol, Tennessee	1,901,676	1,201,865
Cash paid to suppliers and vendors	(49,884,474)	(41,685,814)
Cash paid to employees for services	(2,834,374)	(2,904,642)
Cash paid to City of Bristol, Tennessee	(746,924)	(665,529)
Net cash provided by operating activities	<u>2,758,647</u>	<u>8,930,632</u>
<b>Cash flows from noncapital financing activities</b>		
Transfers to City of Bristol, Tennessee	(700,020)	(605,858)
<b>Cash flows from investing activities</b>		
Interest received on investments	220,066	353,793
Payment for discounted energy units	—	(8,000,000)
Net cash provided by (used in) investing activities	<u>220,066</u>	<u>(7,646,207)</u>
<b>Cash flows from capital and related financing activities</b>		
Net additions to property, plant and equipment	<u>(2,314,587)</u>	<u>(4,308,501)</u>
Decrease in cash and cash equivalents	(35,894)	(3,629,934)
Cash and cash equivalents at beginning of year	6,213,804	9,843,738
Cash and cash equivalents at end of year	<u>\$ 6,177,910</u>	<u>\$ 6,213,804</u>

# Bristol Tennessee Electric System

## Notes to Financial Statements

June 30, 2004 and 2003

### 1. Significant Accounting Policies

#### General

The Bristol Tennessee Electric System (the "System") is a self-supporting enterprise fund of the City of Bristol, Tennessee (the "City"). The City is the primary reporting entity. An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. The Power Board of the System is the level of responsibility that has oversight and control of the electric distribution system. The Power Board sets all policies, local rates and appoints the General Manager. The Power Board is composed of five members, one of whom is also a member of the City Council, who are appointed by the mayor and confirmed by the City Council. They serve four-year staggered terms. The System manages, operates and maintains the electric utility servicing the citizens of the City and surrounding areas. The System issues a comprehensive annual financial report which is combined in the City's comprehensive annual financial report.

The System utilizes the accrual basis of accounting whereby revenues are recorded in the period the related services are provided, and expenses are recorded in the period incurred. Accordingly, the System has recorded an estimate of unbilled revenue and unbilled power expense. The System considers all revenues and expenses to be operating, except for interest income which is classified as nonoperating.

The System applies Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board ("GASB") pronouncements, in which case, GASB prevails. The System has elected not to adopt the FASB Statements and Interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting".

The System applies the provisions GASB No. 34, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments" ("Statement 34"), as amended by GASB No. 37, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Government: Omnibus" ("Statement 37"). Statements 34 and 37 established standards for external financial reporting and disclosure for all state and local governmental entities, which includes a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. Statement 34 requires the classification of net assets into three components -- invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)

June 30, 2004 and 2003

**1. Significant Accounting Policies (continued)**

**Materials and Supplies Inventories**

Materials and supplies are valued at the lower of cost or market, utilizing the moving average method of determining cost.

**Capital Assets**

Capital assets are carried at historical cost, including applicable general and administrative costs and payroll related costs such as pensions, taxes and other employee benefits. Substantially all renewals and betterments are capitalized in accordance with the System's capitalization policy. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized.

Capital assets other than land, construction in progress and non-utility property, are depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of depreciable capital assets are as follows:

Transmission equipment, fixtures and devices	30 to 40 years
Distribution transformers, meters, fixtures and devices	15 to 50 years
Buildings and improvements	50 years
Furniture, fixtures and equipment	5 to 25 years

The provision for depreciation does not include depreciation on transportation equipment. Those amounts are reported as operating expenses in the Statements of Revenues, Expenses and Changes in Net Assets and totaled \$89,596 in 2004 and \$77,632 in 2003. The cost of maintenance and repairs is charged to expense as incurred.

**Investments**

Temporary investments, consisting entirely of certificates of deposit, are stated at cost which approximates fair value.

**Compensated Absences**

The System recognizes the cost of vacation pay as earned. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. In general, accumulated vacation days are limited to thirty days.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

## 5. Pension Plan

### Plan Description

Certain employees of the System are members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the System after July 1, 1979, become vested after 5 years of service and members joining prior to July 1, 1979, were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the System participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

### Funding Policy

The System requires employees to contribute 5% of earnable compensation.

The System is required to contribute at an actuarially determined rate using the frozen entry age actuarial cost method; the rate for 2004 and 2003 was 5.44% of annual covered payroll. The 2004 and 2003 required contributions were determined as part of the July 1, 2001, actuarial valuation. The contribution requirements for plan members are set by state statute. The contribution requirements for the System are established and may be amended by the TCRS Board of Trustees.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**5. Pension Plan (continued)**

**Required Supplementary Information**

Schedule of Funding Progress (Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/03	\$11,831	\$12,907	\$1,076	91.66%	\$2,584	41.64%
7/01/01	11,492	12,584	1,092	91.32%	2,465	44.30%
7/01/99	10,589	11,083	494	95.54%	2,317	21.32%

**6. 401(k) Retirement Plan**

The System administers a defined contribution plan in the form of a 401(k) plan (Bristol Tennessee Electric System 401(k) Retirement Plan) available to all employees who have completed six months of employment. During 2004, the amount of payroll covered by the plan was \$2,495,331 of total payroll of \$2,771,405. During 2003, the amount of payroll covered by the plan was \$2,579,099 of total payroll of \$2,828,368. Under the plan terms, the System will match participant contributions up to 6% of the participant's salary (3% of participant's salary prior to October 2002). Participants are not required but may contribute up to a total of 15% of their pre-tax earnings, subject to IRS limitations.

Additionally, participants may contribute up to 10% of their after-tax earnings. Participants are 100% vested in the employer contributions when they are made. During 2004 and 2003, the System contributed \$138,682 and \$119,189, respectively, to the plan which represents 5.6% and 4.6%, respectively, of the covered payroll and 100% of the required contribution for each year. During 2004 and 2003, the participants contributed \$185,780 and \$167,070, respectively, which represents 7.5% and 6.5%, respectively, of the covered payroll.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**12. Related Party Transactions**

As described in Note 1, the System is a self-supporting fund of the City of Bristol, Tennessee. In the normal course of operations, the System provides electrical service to the City at standard electric rates which generated revenues of \$1,894,211 in 2004 and \$1,224,533 in 2003. As of June 30, 2004 and 2003, \$88,431 and \$95,896, respectively, was receivable from the City for these revenues. Payment is due within approximately 30 days of the billing.

During 1997, the System received \$2,000,000 in purchased power credits from TVA for investments related to economic development of the City. At the City's request, the System remits these funds to the City. Remaining activity related to these funds is as follows for the years ended June 30:

	2004	2003
Balance at beginning of year	\$944,011	\$933,761
Interest accruals	9,748	10,250
Payments remitted to City	(142,720)	—
Balance at end of year	\$811,039	\$944,011

Interest accruals are netted against interest income in the accompanying financial statements.

The System made tax equivalent payments to the City of \$700,020 in 2004 and \$665,529 in 2003. These payments are based on the System's capital assets, along with average operating revenues less power costs.

# Bristol Tennessee Electric System

## Statement of Revenues and Expenses (Last Ten Years)

Fiscal Years 2004-1995 (in thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Operating revenues										
Residential	\$28,368	\$26,699	\$24,746	\$25,877	\$24,212	\$23,575	\$23,408	\$21,993	\$23,971	\$20,807
Commercial	3,888	3,621	3,373	3,562	3,442	3,408	3,280	3,065	3,209	2,953
Industrial	22,143	20,072	19,006	19,650	18,953	19,224	17,814	16,619	16,626	15,847
Street and outdoor lighting	911	855	852	919	844	832	815	775	734	702
Other revenues	2,448	2,100	2,018	2,023	1,919	1,844	1,807	1,648	1,698	1,429
Total operating revenues	57,758	53,347	49,995	52,031	49,370	48,883	47,124	44,100	46,238	41,738
Power purchased from Tennessee Valley Authority	48,328	44,701	41,631	43,630	41,265	40,913	39,373	36,470	38,613	34,636
Gross profit	9,430	8,646	8,364	8,401	8,105	7,970	7,751	7,630	7,625	7,102
Operating expenses										
Operation expenses	2,743	2,599	2,412	2,339	2,213	2,128	1,975	1,955	1,917	1,987
Maintenance	2,635	2,533	2,319	2,275	2,212	2,137	2,267	2,060	2,030	1,870
Depreciation	1,898	1,960	1,918	1,863	1,814	1,765	1,655	1,390	1,308	1,188
Tax equivalents	212	206	195	857	868	913	888	858	845	844
Social security taxes	206	213	193	162	158	156	156	161	159	151
Interest on customer deposits	6	6	11	19	19	17	17	17	16	18
Total operating expenses	7,700	7,517	7,048	7,515	7,284	7,116	6,958	6,441	6,275	6,058
Operating income	1,730	1,129	1,316	886	821	854	793	1,189	1,350	1,044
Nonoperating revenue--interest income	628	587	591	1,355	1,071	918	816	875	828	748
Income before transfers	2,358	1,716	1,907	2,241	1,892	1,772	1,609	2,064	2,178	1,792
Transfers out--tax equivalents to the City of Bristol, Tennessee	(700)	(606)	(666)	-	-	-	-	-	-	-
Change in net assets	\$ 1,658	\$ 1,110	\$ 1,241	\$ 2,241	\$ 1,892	\$ 1,772	\$ 1,609	\$ 2,064	\$ 2,178	\$ 1,792



Bristol Tennessee Electric System  
Schedule of Property, Casualty and Other Insurance (Unaudited)  
June 30, 2004

Type of Coverage	Limits	Deductible	Period of Coverage	Company
Theft, disappearance and destruction	\$ 240,000	\$ -	12/05/03 to 12/04/04	Cincinnati Ins Co
Workers' compensation	500,000	-	12/05/03 to 12/04/04	Cincinnati Ins Co
General liability		0 to 1,000	12/05/03 to 12/04/04	Cincinnati Ins Co
Products-completed operations aggregate	2,000,000			
Personal and advertising injury	1,000,000			
Each occurrence	1,000,000			
Fire damage (any one fire)	100,000			
Medical expense (any one person)	5,000			
Employee benefits				
Each claim	1,000,000			
Aggregate	3,000,000			
Automobile policy		100 to 1,000	12/05/03 to 12/04/04	Cincinnati Ins Co
Liability	1,000,000			
Comprehensive	Actual Cash Value			
Uninsured motorist	1,000,000			
Collision	Actual Cash Value			
Medical payments	5,000 per person			
Commercial umbrella liability	20,000,000	-	12/05/03 to 12/04/04	Cincinnati Ins Co
Fire, extended coverage & vandalism and malicious mischief		10,000	12/05/03 to 12/04/04	Cincinnati Ins Co
On premise property	22,050,468			
Off premise property	250,000			
Scheduled property floater				
Flood	2,000,000	25,000	12/05/03 to 12/04/04	Cincinnati Ins Co
Earthquake	10,000,000	500,000		
Directors & officers liability	10,000,000	0 to 10,000	04/28/04 to 04/28/05	Cincinnati Ins Co

Bristol Tennessee Electric System  
Schedule of Electric Rates (Unaudited)

June 30, 2004

**Single Family Dwelling Customers**

**Base Charges**

Customer charge

\$6 29 per month

Energy charge

First 1,000 kilowatt hours per month at 5 374 cents per kilowatt hour

Excess over 1,000 kilowatt hours per month at 5 918 per kilowatt hour

**Commercial, Industrial, Governmental and Institutional Customers**

**Base charges**

- 1 If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kilowatts and (b) customer's monthly energy takings for any month during such period do not exceed 15,000 kilowatt hours

Customer charge

\$14 00 per delivery point per month

Energy charge

6 240 cents per kilowatt hour per month

- 2 If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is greater than 50 kilowatts but not more than 1,000 kilowatts or (b) the customer's billing demand is less than 50 kilowatts and its energy takings for any month during such period exceed 15,000 kilowatt hours

Customer charge

\$25 00 per delivery point per month

Demand charge

First 50 kilowatts of billing demand per month, no charge

Excess over 50 kilowatts of billing demand per month at \$8 56 per kilowatt, plus an additional \$8 56 per kilowatt per month for each kilowatt by which billing demand exceeds the higher of 50 kilowatts or contract demand

Energy charge

First 15,000 kilowatt hours per month at 6 194 cents per kilowatt hour

Excess over 15,000 kilowatt hours per month at 3 420 cents per kilowatt hour

## STATISTICS - JUNE 2004

### Bristol Tennessee Electric System

2470 Volunteer Parkway, Bristol, TN 37620

P O Box 549, Bristol, TN 37621

Telephone 423-968-1526

FAX Number 423-793-5545

Power Outage Number 423-968-BTES (968-2837)

Total Full-Time Employees 60

Part-Time Employees\* (students, etc ) 8

\*Additional students are utilized in the summer and during school breaks

Miles of Line 1,226

Miles of Fiber Optic Cable 69 8

### NUMBER OF CUSTOMERS

Large General Power (>50 kW) 614

Small General Power (<50 kW) 3,332

Residential 27,650

Street and Outdoor Lighting 202

**Total .....31,798**

**Employees/1000 Customers .....1.9**

### LARGEST CUSTOMERS (IN ORDER OF KWH USAGE)

1 Exide Corporation	7 Amerace Corporation
2 City of Bristol, Tennessee	8 Bristol Metals, Inc
3 Modern Forge of Tennessee	9 Royal Mouldings
4 WellmontBRMC	10 Seaman Corporation
5 GlaxoSmithKline Laboratories	11 King College
6 King Pharmaceuticals	12 Wal-Mart

*Note* Bristol Motor Speedway has the third largest peak kW demand of any customer during the August race

**BRISTOL TENNESSEE ELECTRIC SYSTEM  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
TRI-CITIES, TENNESSEE-VIRGINIA MSA  
CALENDAR YEARS 2003-1994**

<b>Calendar Year</b>	<b>Population</b>	<b>Per Capita Income</b>	<b>Median Age</b>	<b>Unemployment Rate</b>
2003	485,884	\$23,878	39 2	5 9%
2002	485,300	\$22,302	40 2	5 3%
2001	484,900	\$22,302	39 7	5 0%
2000	480,091	\$22,119	39 7	4 5%
1999	465,700	\$21,201	39 4	4 4%
1998	464,900	\$19,896	39 1	4 4%
1997	459,963	\$19,503	37 6	4 1%
1996	458,229	\$18,932	37 8	4 7%
1995	454,056	\$18,582	38 1	5 3%
1994	450,273	\$17,622	37 8	5 3%

Information obtained from First Tennessee Development District

Information for 2004 is not available



Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

Power Board  
Bristol Tennessee Electric System

We have audited the financial statements of the Bristol Tennessee Electric System (the "System"), an enterprise fund of the City of Bristol, Tennessee, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

\*\*\*\*\*

This report is intended solely for the information and use of the Power Board, management and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Coulter & Justus, P.C.*

September 14, 2004

**EXHIBIT D**

**[PRO FORMA FINANCIAL STATEMENTS]**

# Bristol Tennessee Essential Services

## Balance Sheet

Forecast

	Mos 1 - 12	Mos 13 - 24	Mos 25 - 36
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ (0)	\$ 22,975	\$ 22,670
Accounts Receivable, Net	\$ 25,602	\$ 76,807	\$ 121,786
Other Receivables	\$ -	\$ -	\$ -
Other Current Assets	\$ -	\$ -	\$ -
<b>Total Current Assets</b>	<b>\$ 25,602</b>	<b>\$ 99,782</b>	<b>\$ 144,456</b>
Property, Plant and Equipment			
Machinery & Equipment	\$ 1,029,005	\$ 1,152,515	\$ 1,276,025
Total	\$ 1,029,005	\$ 1,152,515	\$ 1,276,025
Less Accum Depreciation	\$ (47,786)	\$ (102,581)	\$ (163,552)
<b>Net Property, Plant and Equipment</b>	<b>\$ 981,219</b>	<b>\$ 1,049,934</b>	<b>\$ 1,112,473</b>
Deposits and Other Assets	\$ -	\$ -	\$ -
Other Non-current Assets, Net	\$ -	\$ -	\$ -
<b>Total Other Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,006,821</b>	<b>\$ 1,149,716</b>	<b>\$ 1,256,929</b>
<b>LIABILITIES &amp; NET ASSETS</b>			
Current Liabilities			
Accounts Payable & Accrued Expenses	\$ 25,602	\$ 76,807	\$ 121,786
Current Portion Capitalized Leases	\$ -	\$ -	\$ -
<b>Total Current Liabilities</b>	<b>\$ 25,602</b>	<b>\$ 76,807</b>	<b>\$ 121,786</b>
Other Liabilities			
Business Unit Line of Credit	\$ 1,640,489	\$ 1,968,482	\$ 1,997,793
<b>Total Other Liabilities</b>	<b>\$ 1,640,489</b>	<b>\$ 1,968,482</b>	<b>\$ 1,997,793</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 1,666,091</b>	<b>\$ 2,045,289</b>	<b>\$ 2,119,579</b>
Net Assets			
Unrestricted	\$ (659,270)	\$ (895,574)	\$ (862,650)
<b>TOTAL NET ASSETS</b>	<b>\$ (659,270)</b>	<b>\$ (895,574)</b>	<b>\$ (862,650)</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 1,006,821</b>	<b>\$ 1,149,716</b>	<b>\$ 1,256,929</b>

**Bristol Tennessee Essential Services**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
Forecast

	Mos 1 - 12	Mos 13 - 24	Mos 25 - 36
<b>Revenues:</b>			
Local service	\$ 268,409	\$ 807,489	\$ 1,284,015
Local service features	\$ 57,173	\$ 183,120	\$ 309,120
Long distance service	\$ 112,058	\$ 322,325	\$ 488,678
Churn	\$ (10,941)	\$ (32,823)	\$ (52,045)
Net revenues	\$ 426,698	\$ 1,280,111	\$ 2,029,768
<b>Operating Expenses:</b>			
Cost of local service	\$ 41,360	\$ 127,770	\$ 208,558
Cost of long distance service	\$ 52,153	\$ 146,135	\$ 215,012
Network interconnection expense	\$ 250,804	\$ 541,518	\$ 822,739
Operation and maintenance expense	\$ 636,805	\$ 547,364	\$ 568,642
Depreciation expense	\$ 47,786	\$ 54,795	\$ 60,971
Taxes other than income taxes	\$ 2,645	\$ 19,541	\$ 35,821
State excise tax	\$ (43,024)	\$ (15,561)	\$ 1,801
Federal income tax	\$ (208,347)	\$ (65,418)	\$ 22,191
Total operating expense	\$ 780,182	\$ 1,356,144	\$ 1,935,735
Net operating income	\$ (353,484)	\$ (76,033)	\$ 94,033
<b>Nonoperating Revenues (Expense):</b>			
Interest income	\$ -	\$ 21	\$ 115
Interest expense	\$ (57,060)	\$ (82,388)	\$ (90,315)
Taxes other than income taxes	\$ 2,645	\$ 3,076	\$ 5,098
State excise tax	\$ (43,024)	\$ (15,561)	\$ 1,801
Federal income tax	\$ (208,347)	\$ (65,418)	\$ 22,191
Total nonoperating revenue (expense)	\$ (305,786)	\$ (160,270)	\$ (61,110)
Change in net assets	(659,270)	(236,303)	32,924



# Bristol Tennessee Essential Services

## Statement of Cash Flows

Forecast

	Mos 1 - 12	Mos 13 - 24	Mos 25 - 36
<b>Cash Flows From Operating Activities</b>			
Cash Received from Customers	\$ 426,698	\$ 1,280,111	\$ 2,029,768
Cash Paid to Suppliers and Vendors	\$ (693,170)	\$ (1,082,661)	\$ (1,540,186)
Cash Paid to Employees for Services	\$ (287,952)	\$ (296,591)	\$ (305,488)
	<u>\$ (554,424)</u>	<u>\$ (99,141)</u>	<u>\$ 184,094</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Draws of Credit Facility	\$ 1,640,489	\$ 431,341	\$ 248,252
Interest Paid on Credit Facility	\$ (57,060)	\$ (82,388)	\$ (90,315)
Payment of Credit Facility	\$ -	\$ (103,347)	\$ (218,942)
	<u>\$ 1,583,429</u>	<u>\$ 245,605</u>	<u>\$ (61,005)</u>
<b>Cash Flows from Investing Activities</b>			
Interest Received on Investments	\$ -	\$ 21	\$ 115
	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 115</u>
<b>Cash Flows from Capital Financing Activities</b>			
Net Additions to Property, Plant and Equipment	\$(1,029,005)	\$ (123,510)	\$ (123,510)
	<u>\$(1,029,005)</u>	<u>\$ (123,510)</u>	<u>\$ (123,510)</u>
<b>Net change in cash</b>	\$ -	\$ 22,975	\$ (305)
<b>Cash beginning of period</b>	\$ -	\$ -	\$ 22,975
<b>Cash ending of period</b>	<u>\$ -</u>	<u>\$ 22,975</u>	<u>\$ 22,670</u>

**EXHIBIT E**

**[CORPORATE SURETY BOND]**

**TENNESSEE REGULATORY AUTHORITY**

**TENNESSEE TELECOMMUNICATIONS SERVICE PROVIDER'S SURETY BOND**

Bond #: 8877702

WHEREAS, Bristol Tennessee Essential Services (the "Principal"), has applied to the Tennessee Regulatory Authority for authority to provide telecommunications services in the State of Tennessee; and

**WHEREAS**, under the provisions of Title 65, Chapter 4, Section 125(j) of the Tennessee Code Annotated, as amended, the Principal is required to file this bond in order to obtain such authority and to secure the payment of any monetary sanction imposed in any enforcement proceeding brought under Title 65 of the Tennessee Code Annotated or the Consumer Telemarketing Act of 1990 by or on behalf of the Tennessee Regulatory Authority (the "TRA"); and

WHEREAS, Cincinnati Insurance Company  
(the "Surety"), a corporation licensed to do business in the State of Tennessee and duly authorized by the Tennessee Commissioner of Insurance to engage in the surety business in this state pursuant to Title 56, Chapter 2 of the Tennessee Code Annotated, has agreed to issue this bond in order to permit the Principal to comply with the provisions of Title 65, Chapter 4, Section 125(j) of the Tennessee Code Annotated;

**NOW THEREFORE, BE IT KNOWN**, that we the Principal and the Surety are held and firmly bound to the STATE OF TENNESSEE, in accordance with the provisions of Tennessee Code Annotated, Title 65, Chapter 4, Section 125(j), in the full amount of twenty thousand dollars (\$20,000.00) lawful money of the United States of America to be used for the full and prompt payment of any monetary sanction imposed against the Principal, its representatives, successors or assigns, in any enforcement proceeding brought under Title 65 of Tennessee Code Annotated or the Consumer Telemarketing Act of 1990, by or on behalf of the TRA, for which obligation we bind ourselves, our representatives, successors and assigns, each jointly and severally, firmly and unequivocally by these presents.

This bond shall become effective on the 24th day of August, 2005 and shall be continuous; provided, however, that each annual renewal period or portion thereof shall constitute a new bond term. Regardless of the number of years this bond may remain in force, the liability of the Surety shall not be cumulative, and the aggregate liability of the Surety for any and all claims, suits or actions under this bond shall not exceed Twenty Thousand Dollars (\$20,000.00). The Surety may cancel this bond by giving thirty (30) days written notice of such cancellation to the TRA and Principal by certified mail, it being understood that the Surety shall not be relieved of liability that may have accrued under this bond prior to the date of cancellation.

**PRINCIPAL**

**Bristol Tennessee Essential Services**  
**Name of Company authorized by the TRA** **Name**

## SURETY

Cincinnati Insurance Company

**Company ID # as assigned by TRA**

Cincinnati, Ohio  
Address of Surety

**SIGNATURE OF PRINCIPAL**

**Name:**  
**Title:**

**SIGNATURE OF SURETY AGENT**

**Name:** Jamie M. Stapleton  
**Title:** Attorney-in-Fact

**Address of Surety Agent:**

~~1236 Volunteer Parkway~~  
~~Bristol, TN 37620~~

**THIS BOND IS ISSUED IN ACCORDANCE WITH THE PROVISIONS OF SECTION 125, CHAPTER 4, TITLE 65 OF THE TENNESSEE CODE ANNOTATED AS AMENDED BY CHAPTER NO. 586, 2000 PUBLIC ACTS. SHOULD THERE BE ANY CONFLICT WITH THE TERMS HEREOF AND THE STATUTE OR REGULATIONS PROMULGATED THEREUNDER, THE STATUTE OR REGULATIONS SHALL PREVAIL. (POWER OF ATTORNEY FROM AN APPROVED INSURANCE COMPANY MUST BE ATTACHED.)**

## ACKNOWLEDGMENT OF PRINCIPAL

STATE OF TENNESSEE

COUNTY OF \_\_\_\_\_

Before me, a Notary Public of the State and County aforesaid, personally appeared \_\_\_\_\_ with whom I am personally acquainted and who, upon oath, acknowledged himself to be the individual who executed the foregoing bond on behalf of \_\_\_\_\_, and he acknowledged to me that he executed the same.

WITNESS my hand and seal this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

My Commission Expires:

\_\_\_\_\_, 20\_\_\_\_

\_\_\_\_\_  
Notary Public

## ACKNOWLEDGMENT OF SURETY

STATE OF TENNESSEE

COUNTY OF Sullivan

Before me, a Notary Public of the State and County aforesaid, personally appeared Janice M. Stapleton with whom I am personally acquainted and who, upon oath, acknowledged himself to be the individual who executed the foregoing bond on behalf of Cincinnati Insurance Co, the within named Surety, a corporation licensed to do business in the State of Tennessee and duly authorized by the Tennessee Commissioner of Insurance to engage in the surety business in this state pursuant to Title 56, Chapter 2 of the Tennessee Code Annotated, and that he as such an individual being authorized to do so, executed the foregoing bond, by signing the name of the corporation by himself and as such individual

WITNESS my hand and seal this 24<sup>th</sup> day of August, 2005.

My Commission Expires:

6/4 2007  
2006Catherine J. Jett  
Notary Public

## APPROVAL AND INDORSEMENT

This is to certify that I have examined the foregoing bond and found the same to be sufficient and in conformity to law, that the sureties on the same are good and worth the penalty thereof, and that the same has been filed with the Tennessee Regulatory Authority, State of Tennessee, this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_

\_\_\_\_\_  
Name:\_\_\_\_\_  
Title:

# THE CINCINNATI INSURANCE COMPANY

Fairfield, Ohio

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS: That THE CINCINNATI INSURANCE COMPANY, a corporation organized under the laws of the State of Ohio, and having its principal office in the City of Fairfield, Ohio, does hereby constitute and appoint

Benjamin R. Powers; John F. Harty; B. Rush Powers, Jr.;  
Catherine M. Felty and/or Jamie M. Stapleton

of Bristol, Tennessee

and deliver on its behalf as Surety, and as its act and deed, any and all bonds, policies, undertakings, or other like instruments, as follows:  
Any such obligations in the United States, up to

Three Million and No/100 Dollars (\$3,000,000.00).

This appointment is made under and by authority of the following resolution passed by the Board of Directors of said Company at a meeting held in the principal office of the Company, a quorum being present and voting, on the 6th day of December, 1958, which resolution is still in effect.

"RESOLVED, that the President or any Vice President be hereby authorized, and empowered to appoint Attorneys-in-Fact of the Company to execute any and all bonds, policies, undertakings, or other like instruments on behalf of the Corporation, and may authorize any officer or any such Attorney-in-Fact to affix the corporate seal; and may with or without cause modify or revoke any such appointment or authority. Any such writings so executed by such Attorneys-in-Fact shall be binding upon the Company as if they had been duly executed and acknowledged by the regularly elected officers of the Company."

This Power of Attorney is signed and sealed by facsimile under and by the authority of the following Resolution adopted by the Board of Directors of the Company at a meeting duly called and held on the 7th day of December, 1973.

"RESOLVED, that the signature of the President or a Vice President and the seal of the Company may be affixed by facsimile on any power of attorney granted, and the signature of the Secretary or Assistant Secretary and the seal of the Company may be affixed by facsimile to any certificate of any such power and any such power of certificate bearing such facsimile signature and seal shall be valid and binding on the Company. Any such power so executed and sealed and certified by certificate so executed and sealed shall, with respect to any bond or undertaking to which it is attached, continue to be valid and binding on the Company."

IN WITNESS WHEREOF, THE CINCINNATI INSURANCE COMPANY has caused these presents to be sealed with its corporate seal, duly attested by its Senior Vice President this 1st day of August, 2004.



THE CINCINNATI INSURANCE COMPANY

*Daniel T. McCarthy*  
Senior Vice President

STATE OF OHIO ) ss.  
COUNTY OF BUTLER )

On this 1st day of August, 2004, before me came the above-named Senior Vice President of THE CINCINNATI INSURANCE COMPANY, to me personally known to be the officer described herein, and acknowledged that the seal affixed to the preceding instrument is the corporate seal of said Company and the corporate seal and the signature of the officer were duly affixed and subscribed to said instrument by the authority and direction of said corporation.



*Mark J. Huller*  
MARK J. HULLER, Attorney at Law  
NOTARY PUBLIC - STATE OF OHIO  
My commission has no expiration date. Section 147.03 O.R.C.

I, the undersigned Secretary or Assistant Secretary of THE CINCINNATI INSURANCE COMPANY, hereby certify that the above is a true and correct copy of the Original Power of Attorney issued by said Company, and do hereby further certify that the said Power of Attorney is still in full force and effect.

GIVEN under my hand and seal of said Company at Fairfield, Ohio.

this

24th day of August, 2005



*Bryan J. Schlemmer*  
Secretary

ON-1005 (8/04)

**COLLECTIVE EXHIBIT F**

**[BIOGRAPHICAL INFORMATION]**

# **R. MICHAEL BROWDER**

**Bristol Tennessee Essential Services  
General Manager**

## **Education:**

Doctorate of Educational Leadership and Policy Analysis - East Tennessee State University - Johnson City, Tennessee (1993)

Master of Administrative Science - University of Alabama- Huntsville, Alabama (1973)

Bachelor of Electrical Engineering - Auburn University, Auburn, Alabama (1966)

## **Experience:**

General Manager, Bristol Tennessee Electric System (BTES), Bristol, Tennessee (1977-Present)

Director of Engineering and Operations, Bristol Tennessee Electric System (1972-1977)

Superintendent of Engineering, Huntsville Utilities, Huntsville, Alabama (1967-1972)

Engineer, Bevis Consulting Engineers, Inc., Gadsden, Alabama (1965-1967)

## **Professional:**

Registered Professional Engineer in Alabama.  
Registered Professional Engineer in Tennessee

### ***American Public Power Association (APPA)***

*APPA is an association of over 2,000 publicly owned electric utility industries headquartered in Washington DC.*

Chairman of the Board (2001-2002)

Chairman Elect (2000-2001)

Vice Chairman (1999-2000)

Board of Directors (1992-2003)

Executive Director Search Committee (hired Alan Richardson) (1995)

Chairman, Nominations & Awards Committee (2002-2003)

Chairman, Engineering & Operations Section (1981-1982)

Chairman, Transmission and Distribution Committee (1979-1980)

Member of the Engineering & Operations Section (1973-1990)

Chairman, Power PAC Board of Directors (1985-1986)

Member of Power PAC Board (1985-1998)

Instructor APPA Underground Distribution Courses (1970's)

### ***American Public Power Association Awards***

"Alex Radin Distinguished Service Award" (2003)

Under his leadership BTES received Community Service Award (1996)

Under his leadership BTES received the APPA's E. F. Scattergood Achievement Award (1994)

"Kramer-Preston Personal Service Award" (1986)

"James D. Donovan Individual Achievement Award" (1981)

### ***Tennessee Valley Public Power Association (TVPPA)***

"Distinguished Service Award" (2000)

Board of Directors (1989-1996) (2003-Present)

TVPPA Rates and Contracts Committee (1978-Present) and

Chairman (1990-Present)

TVPPA/TVA Integrated Resource Plan Teams/Energy 2020 Group (1994-Present)

Power Supply Planning Committee

Chairman, TVPPA Legislative Committee (1991)

TVPPA Distribution Cost Allocation Subcommittee (1990)

TVPPA Territorial Protection Task Force (1990)

TVPPA Load Management Committee, Past Chairman (1990)

Chairman TVPPA Engineering & Operating Section (1977-1978)

Chairman, TVPPA National Accounts Task Force

Long Range Strategic Plan

Partial Requirements Study Team

Contract Term/Notification Study Team

Restructuring Committee

Contract Value Team

Industrial Service Policy

New Products Study Team

Contract Flexibility Working Group

Transmission Subcommittee

Chairman, Long Term Contracts Negotiating Committee

### ***Southern States Energy Board***

**Appointed to the 16-member Southern States Energy Advisory Committee by Virginia Governor Baliles to review the management and operations of the Tennessee Valley Authority. This team made several recommendations that have been implemented, including the recommendation to change the structure of the TVA board to nine members and hiring a CEO. (1987)**

### ***Tennessee Municipal Electrical Power Association (TMEPA)***

President of the Board (1983-1984)

Board of Directors (1979-1985)

Spearheaded TMEPA Legislative Committee (Territorial Legislation) (1989)

Chairman, TMEPA Legislative Committee (1993-1999)

Vice Chairman, TMEPA Legislative Committee (1992-1993, 1999-2000, 2001-2002)

Restructuring Committee (2002-2003)

Legislative Subcommittee – (1999-2000) (1993-1995)

Membership – (1993-1995, 1999-2000, 2001-2002)

### ***Tennessee Electrical Power Acquisition Corporation (TEPAC)***

Board Director, Vice President (1999-2002)



***Northeast Tennessee Valley Regional Industrial  
Development Association***

President (1996-2001)  
Vice President (1991-1995)

***Sullivan County Economic Development Commission/Partnership***

Chairman (1993-1994)  
Chairman (1980-1981)  
Member of Commission (1977-Present)  
First Tennessee Economic Development Corp. Board (1995-Present)

***Quality Organizations***

In 1993, BTES received the "Excellence Award" based on the Malcolm Baldrige Criteria from Tennessee Center for Performance Excellence

Chairman (2003-2004)  
Vice Chair/Treasurer (2001-2003)  
Tennessee Center for Performance Excellence (Tennessee Quality Award)  
Board of Directors (1997-2004)  
Secretary (1998- 2000)  
Quality Alliance Board of Directors (1994-1996)  
Certified Quality Advisor for the Quality Alliance (1992-1996)  
Master Trainer for Quality Alliance (1993-1996)  
National Center for Quality Board of Directors (1994-1999)  
President (1998-1999)  
Member of Executive Committee  
National Center for Quality Budget Committee (1994-1995)  
Rochester Institute of Technology/USA TODAY Quality Cup Judge  
(1999, 2000)

***Member of:***

Institute of Electrical and Electronics Engineers (IEEE) Past Director of Upper  
East Tennessee Chapter of Professional Engineers  
National Society of Professional Engineers.  
Tennessee Society of Professional Engineers  
Upper East Tennessee Chapter of Professional Engineers.  
Greater Tri-Cities Business Alliance, Board of Directors (1993-1996)  
Greater Tri-Cities Foreign Trade Zone Board of Directors (1997-2004)  
American Management Association.  
American Society for Human Resource Management

***Tennessee River Valley Association (TRVA)***

Board of Directors (1984-1990)

***Community: United Way of Bristol***

President, (2 terms) (1979-1981)  
Campaign Chairman (1979)  
Board of Directors (1977-Present)  
Chairman, Building Fund (built new office building) (1988)  
Chairman, Board Development Committee (1992)  
Chairman, Strategic Planning Committee (1999-2000)  
Chairman, Pacesetter Campaign (1991)  
Chairman, Special Friends Division (1978)  
United Way Planning Committee (1997)  
Personnel Committee (1993)

Executive Committee (Various times)  
United Way of Virginia Board of Trustees (1979-1980)

***Bristol Chamber of Commerce***

Chairman of the Board, Chamber of Commerce (1981-1982)  
Chairman, Bristol First (1989-1990)  
Chairman, Economic Development Task Force (1984-1985)  
Chairman, Membership Services (1994)  
Vice-Chairman, Membership Services (1987)  
Past Vice Chairman of Steering Committee  
Past Co-Chairman of the Congressional Action Committee  
Member of Gold Club Committee  
Member of Past Chairman's Club

***Rotary Club of Bristol VA/TN***

President (1986-1987)  
Chairman, Membership Development Committee (1997-2001)  
Chairman, Information/Orientation Committee (1991-1992)  
Chairman, Membership Directory Committee (1991-1993)  
Chairman, Outstanding Teacher Awards Committee (1989, 1993-1995)  
Paul Harris Fellow Committee (1989-1990)  
Paul Harris Fellow, Multi-Level

***Rotary District 7570***

Assistant Governor, District 7570 (1995-1997)  
Presidents Elect Training Seminar Coordinator (1997 & 1998)  
Rotary Foundation Scholarship Committee (1993-1994)  
Chairman, Membership Development and Retention Committee (1992 -1999)

***Bristol Regional Medical Center (now Wellmont)***

Chairman of the Board (1991-1993)  
Board of Directors (1986-1994)  
Chairman, Building Committee (From hiring the Architect to moving into the new \$110,000,000 hospital) (1989-1994)  
Chairman, Nominating Committee (1993-1994)  
Chairman, Finance Committee (1986-1989)  
Joint Conference Committee (1990-1992)

***Medical Collections of the Tri-Cities***

Chairman of Board (1988-1989)  
Board of Directors (1988-1993)

***Northeast State Technical Community College Foundation***

Board of Directors (1994-2001)  
Finance Committee (1997-2001)  
Member of Executive Committee  
Northeast TN Pre K-16 Council

***East Tennessee State University National Alumni Board***

President (2002-2004)  
President Elect (2000-2002)  
Vice-President (1998-1999), (1999-2000)  
Treasurer (1996-1997)  
Honors, Awards & Nominations Committee (1995-1996) Chairman (2004)

Fund-Raising Committee (1996-2000)  
Long Range Planning Committee, Chairman (1998-2002)

***East Tennessee State University***

Roan Leadership Scholars Steering Committee (1997-Present)  
ETSU Foundation (1994-Present)  
College of Business Board of Advisors (2000- Present)  
Dean's Advisory Council (1997-Present)  
Bristol Advisory Council (1997-Present)  
ETSU Athletic Committee Task Force (1999-2000)  
ETSU Advisory Ambassadors (1998-1999)

***Bristol Tennessee School System***

Vice President, Bristol Tennessee City Schools Foundation  
(1994-Present)  
Chairman, Fund-Raising Committee (1997)

***King College***

President's Roundtable (1997-Present)

***Virginia Intermont College***

Department of Business Administrator's Advisory Council (1998)

***Paramount Foundation***

President of the Board (1999-2000)  
Board of Directors (1995-2004)  
Chairman, Building and Administration Committee (1991-1992, 1995-1996)

***Bank of America***

Board of Directors/Tri-Cities (1986-Present)

**Other Awards:**

Under his leadership BTES was Named "Tree Line USA Utility" from The National Arbor Day Foundation (2000-2004)

Jim Spradley Award – State of Tennessee Industrial Development Council (1997)

Under his leadership BTES received the Tennessee Quality Governor's Award (1994)

"Outstanding Volunteer" award - United Way of Bristol. (1991)

"Executive of the Year" Professional Secretaries International, Tri-Cities Chapter. (1987)

"Outstanding Service Award" Tennessee Municipal Electric Power Association. (1986)

"Bristol Tennessee Electric System Personal Service Award" (1982)

Jaycees "Outstanding Young Man" Award. (1978)

Listed in "Who's Who in the South and Southwest".

## **BETH RINGLEY**

**Bristol Tennessee Essential Services  
Director of Management Services**

### **EDUCATION**

**Bachelor of Arts** (August 1994), Virginia Intermont College, Bristol, VA  
**Major:** Business Administration

**Master's of Science in Technology** (May 2005) – East Tennessee State University,  
Johnson City, TN  
**Major:** Engineering Technology with emphasis in management

### **RELEVANT QUALIFICATIONS**

**Other training:** Graduate of Bristol Leadership Tomorrow. Completed three years of the Institute for Organizational Management at the University of Georgia and College of Charleston. Participated in "Train the Trainer" course for 21<sup>st</sup> Century Leadership Skills (empowerment, consensus building, collaboration, learning environment, etc.) – through the National Association for Community Leadership.

### **PROFESSIONAL EXPERIENCE**

#### **Bristol Tennessee Electric System**

*Director, Management Services*

October 1999–Present

- Manage all human resource, customer service, strategic planning, marketing and public relations functions of the organization.
- Oversee hiring of all employees, benefit management, employee appraisals, compensation and other human resource functions.
- Supervise Customer Service Department.
- Responsible for all employee training internally and externally, including developing courses specific to organizational needs.
- Conduct communications and marketing to over 31,000 customers through newsletters, media relations, preparation of speeches, marketing of products and meeting planning.
- Organize events such as employee functions, press conferences, economic development announcements and other activities.
- Participate in quality management.
- Assist in the development, design and implementation of the annual Business Plan.

#### **Bristol Chamber of Commerce**

*Vice President, Community/Governmental Relations*

June 1997–October 1999

- Manage the Community and Governmental Relations Division of the Bristol Chamber of Commerce.
- Director of Bristol Leadership Tomorrow – the leadership development program of the Chamber.
- Participate in various aspects of Communications Division including newsletter, media relations, public relations and public speaking to promote and market programs and activities.
- Manage every aspect of governmental relations on the local, state and federal levels in Virginia and Tennessee.
- Director of Keep Bristol Beautiful and Bristol Leadership Tomorrow.
- Facilitate hiring of all employees in Division and assist in other areas of the Chamber.
- Work with various community organizations, business leaders and governmental officials to encourage revitalization of Downtown Bristol.

### **Bristol Convention and Visitors Bureau**

#### *Director of Sales*

April 1995–Sept. 1996

- Develop and implement ideas to market Bristol as a destination for meetings and conventions, special events and group tours.
- Recruitment and organization of events such as the Tour DuPont and the Pepsi/Arby's Autumn Chase Soccer Tournament.
- Develop new events to attract visitors to the area.
- Meeting and convention sales.
- Volunteer management.
- Promotion of activities through public speaking, media relations and community involvement.

### **PROFESSIONAL AFFILIATIONS**

Society for Human Resource Managers (1999-present)

Tennessee Center for Performance Excellence Board of Examiners (2000-2003)

Bristol Chamber of Commerce Board of Directors (2004-present)

Kingsport Chamber of Commerce Board of Directors (2005)

Rotary Club of Bristol VA/TN (1999-present)

Board of Directors (2003-2005)

Rotary Teacher Awards Committee –Chairman (2002-2003)

Rotary Membership Directory Committee – Chairman (2002-present)

United Way of Bristol –Communications Committee Chairman (2002-2005)

Tri-Cities TN/VA All America City Steering Team (1999)

## **WENDI DAVIS**

**Bristol Tennessee Essential Services**  
**Director of Accounting & Finance**

### **EDUCATION**

**Bachelor of Business Administration** (2002), East Tennessee State University,  
Johnson City, TN  
Major: Accounting

**Master's of Science in Technology** (In Progress) – East Tennessee State  
University, Johnson City, TN  
Major: Engineering Technology

### **PROFESSIONAL EXPERIENCE**

#### **Bristol Tennessee Electric System**

*Director, Accounting & Finance*

2002 - Present

- Preparation of monthly financial statements
- Preparation of budget
- Manage current electric billing system
- Balance cash transactions and prepare bank reconciliations.
- Oversee accounts payable and other functions of accounting department

#### **Paul J. Rhoton, C.P.A**

*Bookkeeper*

2000 – 2002

- Preparation of personal & small business tax returns.
- Payroll and accounts payable for individual corporate clients.
- Preparation of sales tax returns and payroll tax returns.

# **KENNETH KING**

**Bristol Tennessee Essential Services**  
**Director of Operations & Safety**

## **EDUCATION**

**Bachelor of Science** (1978), University of Tennessee, Knoxville, TN  
**Major:** Agricultural Engineering

## **PROFESSIONAL EXPERIENCE**

**Bristol Tennessee Essential Services**

*Director, Operations & Safety*  
2001–Present

**Bristol Tennessee Essential Services**

*Supervisor, Operations & Safety*  
1996 – 2001

**Bristol Tennessee Essential Services**

*Director, Meter Substations Transportation & Safety*  
1989 – 1996

**Bristol Tennessee Essential Services**

*Supervisor, Engineering*  
1984 – 1989

**Bristol Tennessee Essential Services**

*Systems Engineery*  
1981 – 1984

**Bristol Tennessee Essential Services**

*Groundman/Apprentice Lineman*  
1978 - 1981

## **PROFESSIONAL AFFILIATIONS**

Certified Safety Professional - 1994  
Professional Member of American Society of Safety Engineers - Northeast  
Tennessee Chapter  
Member Safety Committee, American Public Power Association -  
Engineering & Operations Sections  
Graduate Certified Power Executive, Tennessee Valley Public Power  
Association  
Graduate Bristol Leadership Tomorrow Program

Bristol Tennessee Tree City USA Board Member 2000/04  
Bristol Tennessee Electric System Credit Union past Board Member and  
past President  
State of Tennessee Quality Award Examiner 1999 & 2000



**Michael Lee Parker**  
**Bristol Tennessee Essential Services**  
**Network Supervisor**

**Education** B S , Computer Science – IT Concentration, East Tennessee State University  
Cisco Certified Network Professional (#CISCO10155794) – July, 2004  
Cisco ICND Training – Fall 2000  
Microsoft Certified Systems Engineer – Summer 1999

**Relevant Qualifications** Cisco IOS. IP routing Ethernet switching Hardware: Cisco Catalyst switches. Cisco 2xxx, 3xxx, 7xxx Modular Routers. Cisco AVVID phone platform. 3Com HiperARC dialup servers Lucent PortMaster dialup servers  
Microsoft Windows up to XP and Server 2003 MS SQL Server MS IIS ASP. MS Exchange VB/VBScript. Unix Agilent Advisor. MS Visio Foundstone network analysis tools Cisco Network Registrar BIND DNS.

**Professional Experience**  
**Network Supervisor** **Bristol Tennessee Essential Services**  
2001 - Present  
Responsible for construction and administration of ISP network, supervision of CATV head-end installation and FTTH network hardware Designed and implemented wireless WAN service Perform network security analysis and traffic load analysis.

Coordinated installation of Cisco AVVID phone system Responsible for maintaining phone system, LAN, and database systems. Developed and implemented plan for connecting 19 substations to a fiber optic backbone using Gigabit Ethernet with RSTP. Configured VoIP technology to connect substation terminals to main office. Configured firewall and T1 gateway for corporate Internet connection Documented LAN/WAN and fiber optic networks.

**Charter Communications, Inc.**  
1999 - 2001  
Provided support for helpdesk staff and escalated customer contacts Maintained DNS, Mail, Web, News, RADIUS, and database servers. Used Cisco IOS to troubleshoot cable modems Analyzed connectivity issues for ATM, T1, and Frame Relay connections. Performed security analysis of cable modem network. Analyzed traffic statistics across cable modem network. Built database to track customer cable modems Performed proactive security analysis..

**Systems Engineer** **NetTec Network System Integrators**  
1998  
Maintained and troubleshoot Windows NT4 domain. Configured protocols (WINS, DNS, DHCP) Set Access Policies. Configured Ascend Pipeline 50 ISDN router.

**Technical Specialist** **SPS Payment Systems**  
1997 - 1998  
Performed Level 2 technical support for national ISPs. Internal support for help desk representatives. Performed departmental quality control and procedures analysis Trained, monitored, and coached helpdesk representatives Researched escalated issues and performed call-backs March 1997 - March 1998, September 1998 – April 1999

## **Alan D. Ellison**

### **SUMMARY:**

As a business person in the field of telecommunications and technology for the past sixteen years, I have developed a strong network of community and business relationships. Additionally, my experience managing resources in the area of personnel, investment capital, and time constraints has offered me an opportunity to develop skills critical to establishing a strong business presence in a short period of time.

### **EDUCATION:**

*University of West Florida*

Masters in Business Administration

*Auburn University*

B.S. in Business Administration

### **PROFESSIONAL EXPERIENCE:**

2001 to 2005     *Harbor Communications, Inc.*

#### **President and Founder**

A facility based, Competitive Local Exchange Carrier (CLEC) offering advanced telecommunications services to the businesses and consumers along the Alabama and Florida Gulf Coast region. Responsible for providing executive leadership and growing a market presence for the company.

- Responsible for the design and successful execution of the company's startup business plan
- Successfully initiated the merger of the company with a regional fiber optic Competitive Access Provider (CAP)
- Established a solid brand recognition for the company through community activities, sponsorships, networking and media advertising
- Designed and implemented strategic marketing plan
- Acquired a solid five percent (5%) market share in the highly competitive, wireline business market in less than 24 months of active sales effort
- Established and fostered relationships with channel partners for distribution of products and services
- Established various joint ventures and partnering arrangements with other carriers and vendors to expand network reach and product offerings
- Established the company as the leader in innovative, carrier class product offerings such as flexible bandwidth integrated services, Hosted IP/PBX applications, and wireless broadband.

1998 to 2001     *Actel Integrated Communications, Inc.*

#### **Senior Vice President, Network Services**

A facility based, Competitive Local Exchange Carrier (CLEC) offering local telephone service, long distance service and high speed Internet access to business customers across six states. Responsible for Information Systems Management, Network Engineering, Network Operations, Installation & Maintenance, and Physical Plant Development.

- Responsible for the execution of the company's deployment strategy
- Managed the Network Services budget in excess of \$32 million to within a one percent variance
- Recruited, hired and managed an organization of over 50 engineers, programmers and technical professionals
- Managed the deployment of the company's network including site construction, material procurement and contract management and budget performance
- Successfully constructed eight telephone and data switching facilities across three states in a twelve month period
- Managed the development of the company's Operational Support Systems which supported the processing of customer and company data
- Directed the project management activities of Andersen Consulting's delivery of \$10 million Operational Support Systems platform
- Directed the design and deployment of the company's Network Operations Center (NOC)
- Managed the development of Statements of Work (SOW's) for all contractual services
- Directed the development and implementation of Standard Operating Procedures (SOP's) for network management, capacity management, trouble resolution and overall network operations

- Executed the role as technology expert to secure \$75 million in equity investment from Deutsche Bank Capital Investors and Sandler Capital Management
- Directly supported the sales & marketing organizations with respect to product development and pricing

1997 to 1998     *e.spire Communications, Inc.*

**Account Executive, Advanced Data Services**

A facility based Competitive Local Exchange Carrier (CLEC) headquartered in Annapolis Junction, Maryland that operates fiber networks and voice switches on a national basis. e.spire has since been acquired and operates under the name Xspedius Communications, Inc.

- Lead account executive for data communications products including ATM, Frame Relay, and IP for the state of Alabama
- Lead account executive for data communications hardware responsible for providing technical expertise, network design and troubleshooting services for three sales offices
- Provided high-level guidance in a variety of areas related to technology

1989 - 1997     *Jefferson Davis Community College*

**Director of Management Information Systems**

A state funded, two-year college offering educational opportunities focusing on business and telecommunications. The college is home to the Center for Telecommunications Technology, which delivers emerging technology solutions to businesses within the state of Alabama

- Managed information flow between the college's information systems users and application developers.
- Directed the activities of technical and non-technical employees in the information systems department
- Designed and implemented accounting and student information systems written in COBOL and RPG in an AS/400 environment
- Developed a student tracking and retention system based on IBM AS/400 and Unix platforms
- Built and managed the college's information systems department which was recognized repeatedly by the Alabama Department of Postsecondary Education for its timeliness and accuracy in the submission of data
- Served two years on the Department's Data Management Advisory Committee
- Served three successive terms as president of a software users group for Alabama community colleges
- Managed the College's federal Title III Grant program which funded projects focusing on the application of technology in the areas of student retention and development
- Managed the Center for Telecommunications Technology's video conferencing network by providing design, implementation and technical expertise
- The system is now in use at multiple colleges and universities throughout Alabama including Auburn University, the University of Alabama, and the University of South Alabama
-

## Walter C. Long

### SUMMARY:

Over 30 years experience in Switch Translations, Network Implementation, and Startup, with 10 years in a supervisory role. Leadership experience includes training and motivating personnel, report generation, maintaining schedules, problem resolution, and quality control. Support experience includes Third Level Software support for Operations, set up and operation of a functional Network Operations Center. I have a proven record of success in network activation and trouble shooting in a digital switching environment. The last eight years have been spent in a CLEC environment.

### RELEVANT TRAINING:

Lucent Technologies, Inc

*5ESS Courses*

All courses pertaining to the software provisioning and architecture of the Lucent 5ESS switching line.

Nortel Networks, Inc

*DMS Courses*

Nortel DMS-100 & DMS-10 Maintenance, and Switch Translations, SS7, & CENTREX.

Siemens Communications, Inc

*DCO-E & CCS7*

Translations for the DCO-E switch

Motorola, Inc

*Motorola Cellular Switch*

Maintenance and Translations

### AREAS OF EXPERTISE:

- Complex translations for Class 5 voice switching systems. Initial and Final Office Dependent Data build and data load, bulk data loads, customer activation, and day to day operations.
- Tekelec STP and CCS-7 network data (MTP, SCCP, AIN, LNP, NS-800, LASS and other sub-systems).
- Central Office Software, CCS-7, AIN, LNP, NS800. Writing and loading bulk data for large office loads, initial and growth Office Dependent Data loads.
- Setup, organization and training of operations and translations personnel.

### RELEVANT EXPERIENCE:

2003 to Present *TLFG - Network Consultants, Inc.*

**Consulting Engineer and Co-founder**

- Provided initial software load, additional rate centers, and day to day assistance to a client for the turn up of a 5ESS VCDX.
- Designed and provided a method of Traffic Collection and reporting for a client.
- Designed, provided and implemented a method of AMA Ticket generation for a client.
- Provided the initial translations database and rate center adds for another client for the turn up of a Nortel DMS-10.
- Provide first and second level day to day support for switch support to clients.

2001 to 2003 *Xspedius Communications Group, Inc.*

**Switching Software Engineer**

- Acted as mentor for the Translations, Engineering, and Voice Mail Groups and as a consultant for the Vice President of Switch Implementation.
- Laid out and implemented the upgrade of the system software to a standard platform. Implemented the changes in all switch sites.

1999 to 2001      *Actel Integrated Communications, Inc.*

**Director of Translations Engineering**

- Setup Switch Software/Hardware and NOC, hired & trained Translations/NOC personnel
- Direct and assist in the implementation of the switch network on the Lucent 5ESS SM 2000 and DRM platform.
- Maintain, manage and direct the installation of the company's Tekelec Eagle STPs, SCPs, and SMS systems to support the eight switch network, AIN, and ISVM systems
- Manage and assist in the design and implementation of a four digit dialed wide area centrex calling plan carried as voice over ATM over the company's ATM backbone network for all intra-company communications

1998 - 1999      *US LEC, Inc.*

**Manager of Translations**

- Hire and train Translations employees Build ODA translations for new switches Debug the existing network
- Provided the Translations databases for 17 US LEC Lucent 5ESS switches across 8 states.

1977 - 1998      *Alltel, Inc.*

**Senior Translations Engineer**

- Translate Lucent, Nortel, & Stromberg-Carlson Switches. Oversee and assist other translations personnel when required

1997 to 1998 - Senior Translations Engineer

1988 to 1997 - COE Translations Engineer

1984 to 1988 - COE Engineer

1980 to 1984 - CO Supervisor

1977 to 1980 - Switch Technician

## Craig Uptagrafft

### SUMMARY:

Served for 12 years with the Alabama Army National Guard as a Manager, Communications Specialist. As Vice-President of WebShoppe Communications, I was responsible for all CLEC operations and support for ISP operations. As Director of Engineering and founding member of Actel Integrated Communications, responsible for all aspects of a \$50 million, 35 city network build-out designed to deliver state of the art voice and data services. While serving on the Senior Operations staff for e spire Communications, deployed the first competitive PSTN switch in the southeastern United States.

### EDUCATION:

- Associates in Electronics Engineering Technology, A S E E T  
RETS Electronic Institute, Birmingham, Alabama
- U S. Army Signal Center, Fort Gordon Georgia  
Communications Electronics Communications Systems installation, operation, maintenance and repair
- Primary Leadership Development Course, Fort Benning, Georgia.
- Various vendor training and certifications from Rockwell International, Alcatel, Lucent, Fujitsu, Acterna, Positron, Nortel.
- Various employer training and certifications Field Engineering, DC Power Systems, SONET, Digital Radio.

### CERTIFICATIONS:

- FCC GROL
- NARTE

### RELEVANT EXPERIENCE:

2001 to present *TLFG-Network Consultants, Inc*

#### President and Founder

TLFG- Network Consultants is a telecommunications consulting firm that provides start-up and established CLECs, IOC's and municipalities with the advice, knowledge, project management, and engineering experience to expand, enhance and maintain their service offerings

- Recovered in excess of \$200,000 in erroneous ILEC billing charges for several clients
- Project Manage and assist with multiple ongoing projects for several clients.
- Multiple rate center adds for several customers
- Manage and assist with compliance/regulatory reporting for clients
- Manage all existing industry codes and obtain additional codes as required for clients. Such as, but not limited to CO Codes, two-six codes, OCN, CLLI, RAO, NENA, etc
- Provide switch network capacity planning and forecasts.

2001 to 2003 *WebShoppe Communications, Inc.*

#### Vice-President

- First company to implement Remote Site Collocation and remote site Line-Sharing and Splitting with BellSouth
- Remote Site Line Sharing and Splitting product development and rollout
- Nortel DMS-10 Class 5 switch integration to PSTN
- Provide second level support for all ISP operations

1998 to 2001 *Actel Integrated Communications, Inc.*

#### Director, Network Engineering

- Engineered the network, from concept to implementation and service ready. To support Local, LD switching, access, transport and data services to include: ATM, FR, IP and DSL
- Directed and assisted in the selection and procurement of all hardware used in the network

- Directed and assisted in the hardware selection and deployment of the company's own AIN/IN network to include SS7 STPs, LNP SMS system, SCPs, and Soft Switch to support all AIN/IN applications.
- Directed and assisted in the development and implementation of Standard Operating Procedures for LNP, E911 and CNAM processes and procedures
- Directed and assisted in all Central Office and Collocation facility engineering efforts
- Directed and assisted in the design and implementation of a four digit dialed wide area centrex calling plan carried as voice over ATM over the company's ATM backbone network for all intra-company communications

1996 to 1998     *e.spire Communications, Inc.*

**Regional Operations Manager**

- Managed and directed the entire operations process of multiple cities for e spire This included the integration and management of Lucent 5ESS switches and SONET based transport equipment
- Deployed the first competitive PSTN switch in the Southeast.
- Assisted in the implementation and integration of other switches throughout the Southeast.
- Served as test bed for all new planned PSTN services
- Trained all new employees on the network and all hardware utilized in the network

**Senior Technician**

- Responsible for the supervision and performance of the installation, turn-up, test, maintenance and repair of SONET based communications equipment
- Trained new employees on installation, operation and maintenance of hardware used in the network

1994 to 1996     *MCI Telecommunications, Inc*

**Field Engineer**

- Duties included all maintenance and repair of digital microwave radio and associated communications equipment.
- Managed and maintained seven remote sites and all associated equipment

1990 to 1994     *ITC/DeltaCom, Inc.*

**Field Technician**

- Responsible for the installation, turn-up, test, maintenance and repair of digital microwave radio, fiber optic and associated communications equipment
- Trained all new employees on the network topology and all hardware utilized in the network
- Provided network topology and network operations training to corporate level employees
- Managed and maintained nine remote sites and all associated equipment

1986 to 1998     *Alabama Army National Guard*

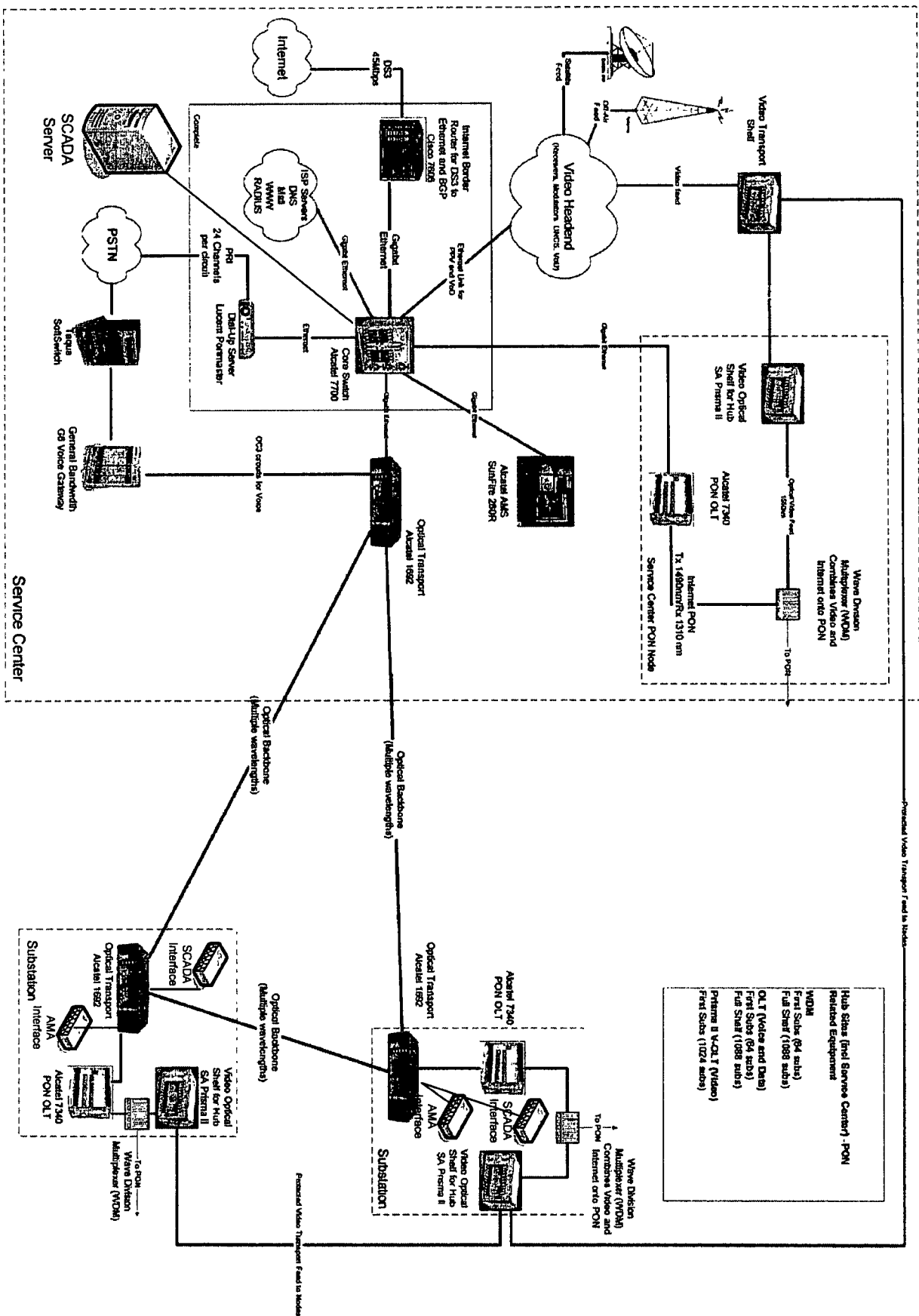
**Team Chief, SGT. E-5**

- Duties and responsibilities included supervision and performance of the installation, maintenance, repair and operations of mobile combat communications equipment
- GTE Switching Systems MSE Certified
- Held Top Secret Clearance

**EXHIBIT G**

**[NETWORK OVERVIEW]**





**EXHIBIT H**

**[SMALL AND MINORITY OWNED BUSINESS PLAN]**

**SMALL AND MINORITY-OWNED TELECOMMUNICATIONS**  
**BUSINESS PARTICIPATION PLAN**

Pursuant to T.C.A. §65-5-212, as amended, Bristol Tennessee Essential Services ("BTES) submits this small and minority-owned Telecommunications business participation plan (the "Plan") along with its Application for a Certificate of Public Convenience and Necessity to provide competing intrastate and local exchange services in Tennessee.

**I. PURPOSE**

The purpose of §65-5-212 is to provide opportunities for small and minority-owned businesses to provide goods and services to Telecommunications service providers. BTES is committed to the goals of §65-5-212 and to taking steps to support the participation of small and minority-owned Telecommunications businesses in the Telecommunications industry. BTES will endeavor to provide opportunities for small and minority-owned Telecommunications businesses to compete for contracts and subcontracts for goods and services. As part of its procurement process, BTES will make efforts to identify and inform minority-owned and small businesses that are qualified and capable of providing goods and services to BTES of such opportunities.

BTES'S representatives have already contacted the Department of Economic and Community Development, the administrator of the small and minority-owned Telecommunications assistance program, to obtain a list of qualified vendors. Moreover, BTES will seek to increase awareness of such opportunities so that companies not otherwise identified will have sufficient information to participate in the procurement

process.

## II. DEFINITIONS

As defined in §65-5-212.

*Minority-Owned Business.* Minority-owned business shall mean a business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is owned, by an individual who personally manages and controls daily operations of such business, and who is impeded from normal entry into the economic mainstream because of race, religion, sex or national origin and such business has annual gross receipts of less than four million dollars (\$4,000,000).

*Small Business.* Small Business shall mean a business with annual gross receipts of less than four million dollars (\$4,000,000).

## III. ADMINISTRATION

BTES's Plan will be overseen and administered by the individual named below, hereinafter referred to as the Administrator, who will be responsible for carrying out and promoting BTES's full efforts to provide equal opportunities for small and minority-owned businesses. The Administrator of the Plan will be:

Beth Ringley  
Director of Management Services  
2470 Volunteer Parkway  
Bristol, TN 37620  
Telephone: (423) 793-5531  
Fax: (423) 793-5545

The Administrator's responsibilities will include:

1. Maintaining an updated Plan in full compliance with §65-5-212 and the rules and orders of the Tennessee Regulatory Authority.

- 2 Establishing and developing policies and procedures necessary for the successful implementation of the Plan.
- 3 Preparing and submitting such forms as may be required by the Tennessee Regulatory Authority, including the filing of required annual updates
- 4 Serving as the primary liaison to and cooperate with the Tennessee Regulatory Authority, other agencies of the State of Tennessee, and small and minority-owned businesses to locate and use qualified small and minority-owned businesses as defined in §65-5-212.
- 5 Searching for and developing opportunities to use small and minority-owned businesses and encouraging such businesses to participate in and bid on contracts and subcontracts.
- 6 Providing records and reports and cooperate in any authorized surveys as required by the Tennessee Regulatory Authority.
7. Establishing a record-keeping system to track qualified small and minority-owned businesses and efforts to use such businesses.
8. Providing information and educational activities to persons within BTES and training such persons to seek out, encourage, and promote the use of small and minority-owned businesses.

In performance of these duties, the Administrator will utilize a number of resources, including:

- 1 Chambers of Commerce
2. The Tennessee Department of Economic and Community Development
3. The United States Department of Commerce
  - a. Small Business Administration
  - b. Office of Minority Business
4. The National Minority Supplier Development Counsel
5. The National Association of Women Business Owners
- 6 The National Association of Minority Contractors
7. Historically Black Colleges, Universities, and Minority Institutions

The efforts to promote and ensure equal opportunities for small and minority-owned businesses are primarily spelled out in the Administrator's duties above. Additional efforts to provide opportunities to small and minority-owned businesses will include offering, where appropriate and feasible, small and minority-owned businesses assistance with technical, insurance, bonding, licensing, production, and deadline requirements.

#### IV. RECORDS AND COMPLIANCE REPORTS

BTES will maintain records of qualified small and minority-owned business and efforts to use the goods and services of such businesses. In addition, BTES will maintain records of educational and training activities conducted or attended and of the internal procurement procedures adopted to support this plan.

BTES will submit records and reports required by the Tennessee Regulatory Authority concerning the Plan. Moreover, BTES will cooperate fully with any surveys and studies required by the Tennessee Regulatory Authority.

Bristol Tennessee Essential Services

By: R. Michael Browder *6, H*

R. Michael Browder, Ed.D, P.E.  
General Manager

Dated: Sept. 10, 2005

**EXHIBIT I**

**[ILEC NOTICE]**

## NOTICE

Bristol Tennessee Essential Services has filed an Application for a Certificate of Convenience and Necessity to provide telecommunications services. Copies of the Application can be obtained from the Tennessee Regulatory Authority.

I certify that a copy of this Notice has been served upon the following carriers via U.S. mail:

Ardmore Telephone Company, Inc.  
P.O. Box 549  
517 Ardmore Avenue  
Ardmore, Tennessee 38449

BellSouth  
333 Commerce Street  
Nashville, Tennessee 37201-3300

Century Telephone of Adamsville  
P.O. Box 405  
116 N. Oak Street  
Adamsville, Tennessee 38310

Century Telephone of Claiborne  
P.O. Box 100  
507 Main Street  
New Tazewell, Tennessee 37825

Century Telephone of Ooltewah-Collegedale, Inc.  
P.O. Box 782  
5616 Main Street  
Ooltewah, Tennessee 37363

Citizens Communications Company of Tennessee  
P.O. Box 770  
300 Bland Street  
Bluefield, West Virginia 24701

Citizens Communications Company  
of The Volunteer State  
P.O. Box 770  
300 Bland Street  
Bluefield, West Virginia 24701

Loretto Telephone Company, Inc.  
P.O. Box 130  
Loretto, Tennessee 38469

Millington Telephone Company, Inc.  
P.O. Box 429  
4880 Navy Road  
Millington, Tennessee 38083-0429

Sprint-United  
112 Sixth Street  
Bristol, Tennessee 37620

TDS Telecom-Concord Telephone Exchange, Inc.  
P.O. Box 22610  
701 Concord Road  
Knoxville, Tennessee 37933-0610

TDS Telecom-Humphreys County  
Telephone Company  
P.O. Box 552  
203 Long Street  
New Johnsonville, Tennessee 37134-0552

TDS Telecom-Tellico Telephone Company, Inc.  
P.O. Box 9  
102 Spence Street  
Tellico Plains, Tennessee 37385-0009

TEC-Crockett Telephone Company, Inc.  
P.O. Box 7  
Friendship, Tennessee 38034




TEC-People's Telephone Company, Inc.  
P.O. Box 310  
Erin, Tennessee 37061

TEC-West Tennessee Telephone Company, Inc.  
P.O. Box 10  
244 E. Main Street  
Bradford, Tennessee 38316

United Telephone Company  
P.O. Box 38  
120 Taylor Street  
Chapel Hill, Tennessee 37034

This 12<sup>th</sup> day of September, 2005.

  
Henry Walker

**EXHIBIT J**

**[TOLL DIALING PARITY PLAN]**

# **BRISTOL TENNESSEE ESSENTIAL SERVICES TOLL DIALING PARITY PLAN**

## **I. INTRODUCTION**

Bristol Tennessee Essential Services ("BTES") will initiate the process that will give end user customers the opportunity to designate a carrier for their intraLATA and interLATA toll call traffic in those market areas where BTES is a facilities-based local exchange service provider. IntraLATA toll calls will automatically be directed to the designated carrier without the customer having to dial an access code.

BTES will comply with all rules of the Federal Communications Commission and the Tennessee Regulatory Authority.

**Implementation Schedule:** BTES will provide intraLATA and interLATA toll dialing parity in Tennessee at the time customer service is available.

**Cost Recovery:** BTES has no plans at this time to seek cost recovery associated with the implementation of this plan.

## **II. POLICIES**

BTES will deploy two-PIC (Primary Interexchange Carrier) technology in its switches. This technology will enable the customer to presubscribe to the same or a different carrier for their intraLATA and/or interLATA service.

Appropriate tariffs will be filed in accordance with this plan.

BTES will offer customers the ability to access all participating carriers by dialing the appropriate access code (101XXXX).

All eligible BTES end user telephone line numbers will be presubscribed and must have a PIC associated with them.

## **III. CARRIER INFORMATION**

Interexchange carriers will have the option of offering intraLATA service only or intraLATA and interLATA service.

Interexchange carriers will have the option of participating in all market areas or in a specific market area.

Interexchange carriers will be required to return a completed Non-Disclosure Agreement and Participation Agreement(s).

BTES will not participate in billing disputes for intraLATA service between alternative competing interexchange carriers and their customers.

BTES representatives will not initiate or accept three-way calls from alternative interexchange carriers to discuss presubscription.

Carriers wishing to participate will be requested to submit Access Service Requests/Translation Questionnaires to the Access Tandem owner and to BTES.

#### **IV. CALL ELIGIBILITY/TOLL DIALING PLAN**

A local service customer of BTES will have calls routed according to the following plan:

<b>If a BTES Customer Dials:</b>	<b>The Call is Handled By/Routed To:</b>
911	PSAP on originating line number
411/555-1212	BTES Directory Assistance Operator
0-	BTES Operator
0 + intraexchange number	IntraLATA Toll
1 + 10 digits	Provider IntraLATA
0 + 7 or 10 digits	Toll Provider
interexchange number	InterLATA Toll
101XXXX + 0-	Provider XXXX
101XXXX + 0 + 10 digits	Carrier
101XXXX + 10 digits	XXXX Carrier
	XXXX Carrier

If a BTES customer originates a call to a carrier Operator by dialing 00-, the call will be routed to the PIC on that customer's line. If the customer originates a call to a carrier Operator by dialing an access code (e.g., 101XXXX + 0-), the call will be routed to the XXXX carrier. In both cases, the carrier's switch is responsible for routing this call to the carrier's Operator or to an announcement.

If a BTES customer originates a call to a carrier Operator by dialing 00-, the call will be routed to the PIC on that customer's line. If the customer originates a call to a carrier Operator by dialing an access code (e.g., 101XXXX + 0-), the call will be routed to the XXXX carrier. In both cases, the carrier's switch is responsible for routing this call to the carrier's Operator or to an announcement.

## **V. NETWORK INFORMATION**

All originating intraLATA and interLATA traffic will initially be routed via the incumbent Local Exchange Carrier (LEC) Access Tandem(s). Direct trunks between the BTES switch and the interexchange carrier location(s) may be provisioned where traffic volumes warrant.

Interexchange carriers must have Feature Group D trunks in place (or ordered) between their point of presence and the incumbent LEC Access Tandem(s).

BTES will route all originating intraLATA and interLATA traffic to the designated carrier and will only block traffic at the request of the end user customer and/or in compliance with regulatory requirements. Requests from carriers to block traffic or to remove customers from their network will not be honored. Calls that cannot be completed to a carrier will be routed to an announcement.

## **VI. CUSTOMER CONTACT INFORMATION**

BTES customer contact representatives will process customer initiated PIC selections to BTES or to an alternative intraLATA or interLATA carrier. Carriers will have the option of allowing the BTES representative to process PIC requests on their behalf.

BTES customer contact representatives will not comment on a customer's choice of its intraLATA or interLATA PIC when the customer contacts BTES to change the PIC. BTES customer contact representatives will respond to customer inquiries about intraLATA or interLATA carriers in a competitively neutral fashion. If a customer requests information relating to carriers other than BTES, a list of participating carriers will be read to that customer in random order by BTES representatives.

If the intraLATA or interLATA toll carrier selected by the customer permits BTES to process orders on its behalf, BTES will accept the PIC change request. If the customer selects an intraLATA or interLATA toll carrier that does not allow BTES to process PIC changes on its behalf, BTES will provide the customer with the carrier's toll-free number (if provided by the carrier).

BTES representatives will not discuss alternative carrier rates or services and will not provide customers with Carrier Identification Codes or access code dialing instructions.

## **VII. PRESUBSCRIPTION INFORMATION**

A PIC change charge will be incurred and billed to a BTES customer for each eligible line where a PIC change is made. BTES offers interexchange carriers the option of having the PIC charge billed to the carrier or to the customer.

New line customers, including customers adding lines, will have the opportunity to select a participating carrier, or they will be assigned a NO PIC designation. If a customer cannot decide upon an intraLATA carrier at the time of order will be assigned a NO PIC designation. Customers assigned a NO PIC designation as set forth in this paragraph will be required to dial an access code to reach an intraLATA or interLATA carrier's network.

If a BTES customer denies requesting a change in intraLATA or interLATA toll providers as submitted by a carrier, and the carrier is unable to produce a Letter of Agency signed by the customer, the carrier will be assessed a \$30.00 charge for the unauthorized PIC change and the PIC will be changed as per the customer's request, in addition to any other penalties authorized by law.

Alternative interexchange carriers may submit PIC changes to BTES via a fax/paper interface.

BTES will process intraLATA and interLATA PIC selections as will be described in its applicable tariffs subsequently filed to the authority for its approval.

Carriers will be required to submit PIC changes using the Customer Account Record Exchange (CARE) format via paper medium. BTES will provide carriers with PIC order confirmation and reject information using the CARE format. Specific details regarding CARE will be provided to participating carriers.

**EXHIBIT K**

**[NUMBERING ISSUES]**

## **EXHIBIT K**

### **Numbering Issues**

- A. What is your company's expected demand for NXX's per NPA within a year of approval of your application?

**Response:** By taking advantage of local number portability (LNP), BTES expects to utilize the customers existing telephone number assignments. Therefore, BTES believes the following table to represent a reasonable approximation of the new telephone number requirements within one year of approval of this application.

Rate Center	ILEC C.L.I.	Number Requirements
Bristol, TN	BRSTTNXA	1,000
Blountville, TN	BUVLTNXA	1,000
Bluff City, TN	BLCYTNXA	1,000

- B. How many NXX's do you estimate that you will request from NANPA when you establish your service footprint?

**Response:** As stated earlier, BTES initially plans to offer its local telephone service to its existing customer base. It is anticipated, and reasonable to assume, that the overwhelming majority of these customers already subscribe to wire-line, local telephone service provided by the ILEC. By taking advantage of local number portability (LNP), BTES expects to utilize the customers existing telephone number assignments whenever possible.

Pursuant to the International Numbering Committee's (INC) "*Central Office Code (NXX) Assignment Guidelines, Section 4.1.3*" dated February 4, 2005, BTES will initially request one NXX assignment for the establishment of an initial Location Routing Number (LRN) in the 956 LATA since BTES presently has no existing resources available for LRN assignment.

Additionally, since the 956 LATA has been designated as a number pooling area, BTES is committed to compliance with the pooling requirements established in FCC Report and Order No. 00-104.

- C. When and in what NPA do you expect to establish your service footprint?

**Response:** Immediately upon the Tennessee Regulatory Authority's granting of a certificate to BTES and BTES's satisfaction of all other requirements such as tariff filing and E-911 call routing, the company plans offer service in the 423 NXX.

- D. Will the company sequentially assign telephone numbers within NXX's?

**Response:** In order to conserve telephone numbering resources, BTES will, in all cases possible, assign telephone numbers on a sequential basis. Specific attention will be given



to maintaining contiguous thousand block groups of numbers in order to support applicable number pooling guidelines.

- E. What measures does the company intend to take to conserve Tennessee numbering resources?

**Response:** As previously stated, in order to conserve telephone numbering resources, BTES will, in all cases possible, assign telephone numbers on a sequential basis. Specific attention will be given to maintaining contiguous thousand block groups of numbers in order to support applicable number pooling guidelines. Additionally, BTES will take advantage of local number portability in order to maintain utilization of existing telephone number assignments and ensure a high level of customer satisfaction.

- F. When ordering new NXX's for growth, what percentage fill of an existing NXX does the company use to determine when a request for a new NXX will be initiated?

**Response:** Pursuant to the International Numbering Committee's (INC) "*Central Office Code (NXX) Assignment Guidelines, Section 4.3.1*" dated February 4, 2005, when ordering new NXX's for growth, BTES will ensure that a minimum of seventy-five percent (75%) of an assigned NXX is exhausted prior to application for an additional NXX. Additionally, BTES will apply for additional codes only when it expects the existing codes in a given rate center will exhaust within a six month period.

**EXHIBIT L**

**[TENNESSEE SPECIFIC OPERATIONAL ISSUES]**

## **EXHIBIT L**

### **Tennessee Specific Operational Issues**

- A. How does the company intend to comply with T.C.A. §65-21-114? In its description, please explain technically how the company will not bill for countywide calls within Tennessee.

**Response:** In compliance with T.C.A. §65-21-114, BTES will provide customers county wide calling at no charge. In order to do so, BTES will periodically update database entries in the BellSouth County Wide Calling (CWC) system. These updates will occur, at a minimum, on a bi-monthly basis in order to ensure that BTES customer telephone numbers are flagged with the appropriate Taxing Area (TAR) Code as all carriers are required to do.

Additionally, on a bi-monthly basis, BTES will process the TAR Master File provided by BellSouth. I doing so, terminating numbers in call records originated by BTES customers will be matched against the TAR Master File in order to determine, based on TAR, whether or not the terminating numbers is within the same county as the originating number. If so, the BTES billing system will ensure that the call is “zero-rated” and the customer is not charged in any way for the call.

- B. Is the company aware of the Tennessee County Wide Calling database maintained by BellSouth and the procedures to enter your telephone numbers on the database?

**Response:** BTES is aware of the Tennessee County Wide Calling database maintained by BellSouth. This database is maintained by BellSouth in order to support county wide calling to residents of Tennessee at no charge. BTES is aware of the process to update, the database entries with the appropriately assigned TAR code in a timely manner.

- C. Is your company aware of the local calling areas provided by the Incumbent Local Exchange Carriers in your proposed service areas?

**Response:** BTES recognizes the Incumbent Local Exchange Carrier's, Sprint – United Inter-Mountain Telephone (OCN: 0567), local calling area. As such, BTES will offer a local calling area that overlays the ILEC provider's local calling area. This is intended to ensure the transition to BTES provided telephone service is without inconvenience for the customer or perceived interruption of service. As such, the Bristol, Tennessee rate center shall support local calling to the following NPA-NXX listing:

Blountville	212, 279, 323, 325, 354, 397, 482, 662, 761, 917
Bluff City-Piney Flats	391, 538
Bristol, TN and Bristol, VA	217, 274, 340, 341, 366, 383, 484, 534, 612, 646, 652, 742, 758, 764, 789, 793, 797, 844, 845, 878, 914, 968, 989, 990, 204, 466, 469, 494, 591, 642, 645, 669, 696, 791, 821
Church Hill-Mt Carmel	256, 357

Fall Branch	292, 348, 384, 446, 677,897
Kingsport	224, 229, 230, 245, 246, 276, 288, 343, 367, 378, 390, 392, 529, 578, 723, 765, 782, 817, 857, 863, 963, 967
Midway (Sullivan County)	239, 306, 335, 360, 361, 389, 416, 418, 502, 571, 726
Sullivan Gardens	349

Additionally, BTES will provide local and long distance service in a manner consistent with the rules and intent of the Tennessee Regulatory Authority specifically including access to E-911 services and access to County Wide Calling (CWC) service at no additional charge to BTES's customer base.

- D. Explain the procedures that will be implemented to assure that your customers will not be billed long distance charges for calls within the metro calling areas.

**Response:** BTES will utilize a combination of NPA-NXX screening and database filtering processes to prevent customers from receiving long distance charges for calls made within the metro area. These processes will be utilized in both the network switching equipment originating the calls and the back-office billing systems used to process and rate the calls.

- E. Please provide the name and telephone number of an employee of your company that will be responsible to work with the TRA on resolving customer complaints.

**Response:** Although BTES anticipates no complaints from customers significant enough to warrant TRA involvement, BTES is committed to resolving any complaints that may arise and will do so in the best interest of the customer. As such, BTES has identified one of its officers to work with the TRA on resolving any customer complaints that may arise. This officer is:

Beth Ringley  
Director of Management Services  
2470 Volunteer Parkway  
Bristol, TN 37621

- F. Does the company intend to telemarket its services in Tennessee? If yes, is the company aware of the telemarketing statutes and regulations found in T.C.A. §65-4-401 *et seq.* And Chapter 1220-4-11?

**Response:** Presently, BTES plans to offer telephone service only to current BTES customers. While telemarketing is not considered by BTES to be a critical part of its sales and marketing strategy, BTES may engage in the solicitation of business from its current customer base. As such, BTES is aware of, understands, and is committed to abiding by the statutes and regulations found in T.C.A. §65-4-401 *et seq.* regarding the telemarketing of products and services to consumers.

Additionally, BTES is committed to following the guidelines set forth in the Rules of the Tennessee Regulatory Authority – Consumer Services Division Chapter 1220-4-11

concerning telephone solicitation and the Tennessee Do Not Call Register. BTES is also aware of the registration requirements and associated fees required by the Tennessee Regulatory Authority and is committed to paying any, and all, appropriate fees required by TRA for telephone solicitor registration.

**COLLECTIVE EXHIBIT M**

**[PRE-FILED TESTIMONY]**

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**September 12, 2005**

*IN RE: Application of Bristol Tennessee* )  
*Essential Services for a Certificate of* )  
*Convenience and Necessity to Provide* )  
*Competing Telecommunications Services* )

Docket No.: \_\_\_\_\_

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**PRE-FILED DIRECT TESTIMONY  
OF  
DR. R. MICHAEL BROWDER,  
GENERAL MANAGER,  
BRISTOL TENNESSEE ESSENTIAL SERVICES**

---

1 I, R. Michael Browder, Ed.D, P.E., do hereby testify as follows in support of the Application of  
2 Bristol Tennessee Essential Services ("BTES") for a Certificate of Convenience and Necessity to  
3 Provide Telecommunications Services (the "Application") to provide telecommunications  
4 services throughout the State of Tennessee:

5 **Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

6 A: My name is R. Michael Browder, Ed. D., P.E., and I am the General Manager of BTES.  
7 BTES' principal office is located at 2470 Volunteer Parkway, Bristol, Tennessee 37621.

8  
9 **Q: PLEASE BRIEFLY DESCRIBE YOUR DUTIES.**

10 A: As General Manager, I have the responsibility for managing and overseeing all the  
11 operations of BTES, subject to the ultimate oversight of the BTES Board of Directors.  
12 BTES' operations presently include electric, cable and Internet operations. I will also be  
13 responsible for managing and overseeing BTES' telephone activities following  
14 certification of BTES' telephone operations.

15  
16 **Q: PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL  
17 BACKGROUND.**

18 A: I joined BTES as director of engineering and operations in 1972, and in 1977, I was  
19 named general manager. Prior to that time, I worked at Huntsville (Alabama) Utilities for  
20 five years, with my final position as superintendent of engineering at Huntsville  
21 (Alabama) Utilities.

22 In addition to a bachelor of electrical engineering from Auburn University and a master  
23 of administrative science from the University of Alabama-Huntsville, I earned a doctorate  
24 of educational leadership and policy analysis from East Tennessee State University. Our



1 entire organization is committed to education and continuous learning, and this has  
2 allowed us to serve our customers efficiently with a smaller staff than other utilities with  
3 a similar number of customers.

4  
5 **Q. PLEASE DESCRIBE YOUR MANAGEMENT PHILOSOPHY AS GENERAL**  
6 **MANAGER OF BTES.**

7 A. My goal has always been to manage a utility with low rates and high reliability, whether  
8 providing electricity, cable television or Internet services. Electric rates at BTES are  
9 among the lowest in the Tennessee Valley, and we are financially stable.

10 I have spent my entire career promoting public power at the local and national levels,  
11 with my main goal being to represent the customer who benefits from these low rates.  
12 Additionally, BTES is committed to activities and organizations that promote a greater  
13 quality of life for our customers. This is one of the main reasons we work in the field of  
14 economic development and have started providing cable television and Internet services.

15  
16 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A: The purpose of my testimony is to support BTES' Application. In my testimony, I will  
18 provide the TRA with background information regarding BTES. Because appropriate  
19 cost allocation procedures have been a primary regulatory concern in prior TRA  
20 proceedings involving public power systems, I have asked Ms. Beth Ringley to address  
21 the steps BTES has taken and will take in order to implement appropriate cost allocation  
22 procedures for its new Telephone Business Unit. I will then address BTES' Application  
23 in greater detail in order to show that BTES meets all applicable requirements for

1 certification, and I will conclude with testimony showing that granting BTES'  
2 Application is in the public interest.

3  
4 I have also asked Mr. Alan D. Ellison and Mr. Dwight Work to file pre-filed testimony in  
5 support of BTES' Application. Mr. Ellison will address the managerial and technical  
6 consulting services that his firm will provide to BTES, and Mr. Work will address the  
7 BTES Cost Allocation Manual.

8  
9 **Q. PLEASE DESCRIBE BTES.**

10 A. BTES is a municipal electric system created in 1945 by the City of Bristol as a five (5)  
11 member board of public utilities pursuant to the Municipal Electric Plant Law of 1935.  
12 BTES presently provides electric service to approximately 32,000 residential,  
13 commercial and industrial customers in and around Bristol, Tennessee. Effective July 1,  
14 2005, the Board of BTES designated the electric system operations of BTES as the  
15 Electric Business Unit and created two new business units within BTES: the Telephone  
16 Business Unit and the Cable and Internet Business Unit.

17  
18 **Q: PLEASE DESCRIBE THE STRUCTURE OF BTES' TELEPHONE BUSINESS**  
19 **UNIT FROM AN ACCOUNTING AND COST ALLOCATION STANDPOINT.**

20 A: BTES has created a new Telephone Business Unit separate from its Electric Business  
21 Unit for purposes of allocating costs and separately accounting for its telephone  
22 operations. Services described in the Application will be provided through the BTES  
23 Telephone Business Unit.

1  
2 **Q: HAS BTES DEVELOPED ACCOUNTING AND COST ALLOCATION**  
3 **METHODS TO ACCOMMODATE THE TELEPHONE BUSINESS UNIT?**

4 A. Yes. BTES' Cost Allocation Manual is attached as Exhibit B to the Application, and I  
5 have asked Ms. Beth Ringley and Mr. Dwight Work to submit pre-filed testimony to  
6 address the Cost Allocation Manual and aspects of the cost allocation process.

7  
8 **Q: TURNING NOW TO THE APPLICATION, ARE ALL THE STATEMENTS IN**  
9 **BTES' APPLICATION TRUE AND CORRECT TO THE BEST OF YOUR**  
10 **KNOWLEDGE, INFORMATION AND BELIEF?**

11 A: Yes.

12  
13 **Q: PLEASE DESCRIBE THE BTES FIBER OPTIC NETWORK.**

14 A: BTES has a fiber optic system connecting each of our 19 substations for its electric  
15 system communication and operational purposes. As indicated in the Application, BTES  
16 is extending this fiber optic network with a fiber-to-the-home network architecture in its  
17 service area in and around Bristol, Tennessee. BTES electric system purposes include  
18 outage reporting for individual customers and sections of the BTES system, power  
19 restoration notification, load management, meter reading and pre-paid power  
20 opportunities for customers with specific needs. BTES is currently providing cable and  
21 Internet services using this system. With certain upgrades, the system will have the  
22 capability of providing telephone service. Upon completion, this network will consist of  
23 an approximately 400 mile all-fiber optic network designed and manufactured by Alcatel.

1 Following receipt of regulatory approvals from the TRA, BTES will purchase a voice  
2 gateway and a soft switch in order to upgrade the fiber network to provide telephone  
3 service.

4  
5 **Q: PLEASE DESCRIBE THE AUTHORITY THAT BTES SEEKS IN THE**  
6 **APPLICATION.**

7 A: In the Application, BTES has asked that the TRA grant BTES a certificate of  
8 convenience and necessity to provide telecommunications services.

9  
10 **Q: WHAT SERVICES DOES BTES PLAN TO OFFER?**

11 A: As a competing local service provider, BTES will offer a wide range of reliable services  
12 to the consumers and businesses in its service area. While an exhaustive, detailed listing  
13 of services, pricing, and policies will be submitted in BTES's tariff filings following  
14 approval by the TRA, the following table offers insight into some of the company's  
15 planned service offerings:

Local Telephone Service:	Long Distance Telephone Service:
Flat rate local calling (county-wide)	Domestic, Direct Dial Service (1+)
Enhanced vertical features	Domestic, Toll Free Service
Caller ID, Call Return, etc	International, Direct Dial Service (1+)
Access Line Service	International, Toll Free Service

16  
17 Additionally, BTES understands that with entry into the local exchange communications  
18 markets in Tennessee come basic obligations and responsibilities to serve the public  
19 interest. Therefore, BTES will:

- 20
- Provide access to 911 and E911 emergency service;
  - Provide white page directory listings and directory assistance;
  - Provide consumer access to and support for the Tennessee Relay Center in the
- 21  
22

1 same manner as incumbent local exchange telephone companies;

- 2 • Provide free blocking service for 900, 976 type services in accordance with TRA  
3 policy;  
4 • Provide Lifeline and Link-up services to qualifying citizens of this state; and  
5 • Provide educational discounts in existence as of June 6, 1995 TRA Rule 1220-4-8-  
6 .04

7 Mr. Alan Ellison and Harbor Network Services, LLC will assist us in the development of  
8 BTES' tariff and with compliance with these requirements.

9  
10 **Q: DOES BTES POSSESS THE REQUISITE MANAGERIAL, FINANCIAL, AND**  
11 **TECHNICAL ABILITIES TO PROVIDE THE SERVICES FOR WHICH IT HAS**  
12 **APPLIED FOR AUTHORITY?**

13 **A:** Yes.

14  
15 **Q: PLEASE DESCRIBE BTES' FINANCIAL QUALIFICATIONS.**

16 **A:** BTES has the financial qualifications necessary to provide telephone services over the  
17 Network. To provide for the required working capital and capital expenditures for its  
18 telephone operations, BTES will make an inter-division loan in the amount of \$2 million  
19 from its Electric Business Unit to its Telephone Business Unit. BTES' audited financial  
20 statements for the year ending June 30, 2004 are attached as Exhibit C to the  
21 Application.

1 Q: PLEASE DESCRIBE BTES' MANAGERIAL AND TECHNICAL  
2 QUALIFICATIONS.

3 A: BTES has the managerial and technical qualifications necessary to provide telephone  
4 services. As indicated in the Application, the members of BTES' management team have  
5 extensive managerial and technical expertise in the provision of facilities-based utility  
6 services. Years of experience combined with education and on-the-job training have  
7 positioned the BTES team to successfully manage electric, cable and Internet businesses.  
8 This same knowledge and expertise will apply in the phone business and will be  
9 supplemented by outside experts. **Collective Exhibit F** to the Application details the  
10 management and technical expertise of BTES' management team and demonstrates  
11 BTES' managerial and technical expertise to provide the applied for services. You will  
12 notice that BTES expertise includes technical, accounting, organizational development,  
13 safety, operations and other necessary skills to manage these new services effectively.

14  
15 To supplement its internal managerial and technical qualifications, BTES has also  
16 contracted with Harbor Network Services, LLC to provide consulting services to BTES'  
17 telephone operations. I have asked Mr. Alan D. Ellison of Harbor Network Services,  
18 LLC to submit pre-filed testimony in support of the BTES' Application to address his and  
19 his firm's qualifications in greater detail. Resumes for Mr. Ellison and other members of  
20 his firm are included in **Collective Exhibit F** to the Application.

1 **Q: DOES BTES PLAN TO OFFER TELECOMMUNICATIONS SERVICES IN**  
2 **AREAS SERVED BY ANY INCUMBENT LOCAL EXCHANGE TELEPHONE**  
3 **COMPANY WITH FEWER THAN 100,000 TOTAL ACCESS LINES?**

4 A: No, not at this time.  
5

6 **Q: DOES BTES INTEND TO COMPLY WITH ALL TRA RULES, STATUTES, AND**  
7 **ORDERS PERTAINING TO THE PROVISION OF TELECOMMUNICATIONS**  
8 **SERVICES IN TENNESSEE, INCLUDING THOSE FOR DISCONNECTION**  
9 **AND RECONNECTION OF SERVICE?**

10 A: Yes.  
11

12 **Q: HAS ANY STATE EVER DENIED BTES OR ONE OF ITS AFFILIATES**  
13 **AUTHORIZATION TO PROVIDE INTRASTATE SERVICE?**

14 A: No. BTES is not providing telecommunications services in any other state and, therefore,  
15 has not been subject to complaints of any other states. BTES does not have any affiliates  
16 that provide telecommunications services.  
17

18 **Q: HAS ANY STATE EVER REVOKED THE CERTIFICATION OF BTES OR ONE**  
19 **OF ITS AFFILIATES?**

20 A: No.  
21

1   **Q:   HAS BTES OR ONE OF ITS AFFILIATES EVER BEEN INVESTIGATED OR**  
2       **SANCTIONED BY ANY REGULATORY AUTHORITY FOR SERVICE OR**  
3       **BILLING IRREGULARITIES?**

4   A.   No.

6   **Q:   WHO IS KNOWLEDGEABLE ABOUT BTES' OPERATIONS AND WILL**  
7       **SERVE AS BTES' REGULATORY AND CUSTOMER SERVICE CONTACT?**

8   A.   Ms. Beth Ringley will serve as BTES' regulatory contact with the TRA for any matters  
9       arising after approval.

11   **Q:   PLEASE EXPLAIN IN DETAIL BTES' PROPOSED PROCEDURES FOR**  
12       **RESPONDING TO INFORMATION REQUESTS FROM THE TRA AND ITS**  
13       **STAFF.**

14   A.   Ms. Ringley is aware of the need for timely and accurate responses to data requests and  
15       other requests from the TRA and its staff. Ms. Ringley will be responsible for  
16       coordinating the preparation of responses and for submitting those responses in a timely  
17       manner.

19   **Q:   WILL THE GRANTING OF A CERTIFICATE OF CONVENIENCE AND**  
20       **NECESSITY TO BTES SERVE THE PUBLIC INTEREST?**

21   A.   I believe very strongly that the granting of BTES' application will serve the public  
22       interest in several important ways. First, BTES' network will provide true facilities-  
23       based competition in the BTES service area, including true facilities-based competition



1 for the residential as well as business customers in this area. Second, because the BTES  
2 network will make available end to end fiber optic connections to these residential and  
3 business customers, the network will address the "last mile" problem that has historically  
4 hindered the development of new bandwidth intensive services in the telecommunications  
5 sector. Each of these factors will contribute towards the goals of the TRA and the  
6 Tennessee General Assembly to expand the availability of competitive services in  
7 Tennessee. The TRA's approval of the Application should further serve the public  
8 interest by allowing additional service offerings, higher quality service, lower cost  
9 service, or some combination of these competitive market benefits. Additionally, I  
10 believe that the deployment of a fiber to the home network will give BTES and the City  
11 of Bristol an advantage in our efforts to recruit new businesses and better-paying jobs to  
12 our community and will significantly improve the overall quality of life for our citizens.

13  
14 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A:** Yes.

I swear that the foregoing testimony is true and correct to the best of my knowledge, information and belief.

---

R. Michael Browder, Ed. D., P.E.  
General Manager  
Bristol Tennessee Essential Services

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**September 12, 2005**

*IN RE: Application of Bristol Tennessee* )  
*Essential Services for a Certificate of* )  
*Convenience and Necessity to Provide* )  
*Competing Telecommunications Services* )

Docket No.: \_\_\_\_\_

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**PRE-FILED DIRECT TESTIMONY  
OF  
ALAN D. ELLISON,  
HARBOR NETWORK SERVICES, LLC**

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1 I, Alan D. Ellison., do hereby testify as follows in support of the Application of Bristol  
2 Tennessee Essential Services ("BTES") for a Certificate of Convenience and Necessity as a  
3 Competing Telecommunications Services Provider (the "Application") to provide  
4 telecommunication services throughout the State of Tennessee:

5 **Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

6 A: My name is Alan D. Ellison, and I am co-founder of Harbor Network Services, LLC  
7 ("Harbor Network Services"). Harbor Network Services principal office is located at  
8 720 Oak Circle Drive  
9 Mobile, AL 36609.

10 **Q: PLEASE BRIEFLY DESCRIBE YOUR BUSINESS EXPERIENCE AND**  
11 **EDUCATIONAL BACKGROUND.**

12 A: I hold a Masters of Business Administration from the University of West Florida, a  
13 bachelor's degree in Business Administration from Auburn University, and have 16 years  
14 experience in the telecommunications field. My resume is included in Collective  
15 Exhibit F to the Application. Over the course of these past 16 years, I have worked for  
16 three companies in the regulated telephone industry – espire Communications, Inc. (now  
17 Expedius) and Actel Integrated Communications, Inc.– and most recently Harbor  
18 Communications, LLC. Harbor Communications, LLC is a competitive local exchange  
19 carrier which I founded in November, 2001 in Mobile, AL. I was President and Chief  
20 Operating Officer of the company from its inception through March, 2005. The company  
21 was granted its Certificate of Public Convenience in the states of Alabama and Florida in  
22 Spring of 2002 and has continued to operate in good standing since that time.

23  
24 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

1 A: The purpose of my testimony is to support BTES' Application and to provide the  
2 Tennessee Regulatory Authority ("TRA") with additional information concerning the  
3 managerial and technical support services that Harbor Network Services will provide to  
4 BTES during the start-up of its telephone operations.  
5

6 **Q. PLEASE DESCRIBE HARBOR NETWORK SERVICES, LLC.**

7 A. Harbor Network Services is a professional services firm established to support the  
8 transition of Internet Service Providers, cable television providers, and municipalities into  
9 comprehensive telecommunications service providers that offer facility based telephone  
10 services. Walter Long, Craig Uptagrafft and I established Harbor Network Services in  
11 order to leverage the industry experience of personnel responsible for the foundation and  
12 growth of Harbor Communications, LLC ("Harbor Communications"). Biographical  
13 information for Mr. Long and Mr. Uptagrafft are attached as **Collective Exhibit F** to the  
14 Application. Harbor Communications ([www.harborcom.com](http://www.harborcom.com)) is a Competitive Local  
15 Exchange Carrier serving residential and business customers in southern Alabama and  
16 northwest Florida. Harbor Communications is a facility based provider of services that  
17 has deployed, and operates, a local telephone switch, local transport facilities, and  
18 maintains integration with the Public Switched Telephone Network (PSTN).  
19

20 **Q: IS HARBOR COMMUNICATIONS A CERTIFICATED CARRIER IN**  
21 **ALABAMA AND FLORIDA?**

22 A: Yes. Those Commissions have determined that Harbor Communications possesses the  
23 technical talent and operational skill sets necessary to acquire and maintain certificates of  
24 convenience and necessity to provide telecommunications service.

1  
2 **Q: HAS ANY STATE EVER DENIED HARBOR COMMUNICATIONS OR ONE OF**  
3 **ITS AFFILIATES AUTHORIZATION TO PROVIDE INTRASTATE SERVICE?**

4 A: No.  
5

6 **Q: HAS ANY STATE EVER REVOKED THE CERTIFICATION OF HARBOR**  
7 **COMMUNICATIONS OR ONE OF ITS AFFILIATES?**

8 A: No.  
9

10 **Q: HAS HARBOR COMMUNICATIONS OR ONE OF ITS AFFILIATES EVER**  
11 **BEEN INVESTIGATED OR SANCTIONED BY ANY REGULATORY**  
12 **AUTHORITY FOR SERVICE OR BILLING IRREGULARITIES?**

13 A: No.  
14

15 **Q: PLEASE DESCRIBE THE SERVICES THAT HARBOR NETWORK SERVICES**  
16 **WILL PROVIDE TO BTES.**

17 A: Numerous activities must be completed in order to meet the overall objectives of BTES.  
18 These activities must be coordinated among multiple vendors and executed in such a way  
19 as to not add unnecessary costs and delays to the project. Harbor Network Services will  
20 provide the professional services necessary for BTES to accomplish the following  
21 objectives:

- 22 • Provide BTES with the technical resources necessary to design and implement its  
23 CLEC operations.

- Provide BTES with the industry specific experience, and expertise, necessary to move successfully through the Tennessee Regulatory Authority (TRA) approval process and maintain regulatory compliance afterwards.
- Establish appropriate carrier and vendor relationships critical to the profitable, ongoing operation of a CLEC model.
- Provide training and support to BTES personnel in order for BTES to operate as a fully, self sufficient service provider.

This listing is certainly high-level in nature and will, no doubt, grow as BTES executes its business model. I have attached as Exhibit ADE-1 a more detailed scope of work that I anticipate will be involved with this project. A copy of the contract between BTES and Harbor Network Services is attached as Exhibit ADE-2.

**Q: HAVE YOU FAMILIARIZED YOURSELF WITH THE LEGAL AND REGULATORY REQUIREMENTS APPLICABLE TO COMPETITIVE TELECOMMUNICATIONS CARRIERS IN TENNESSEE?**

A. Yes, I have assisted in the preparation of the Application, which has given me the opportunity to familiarize myself with the primary regulatory requirements applicable to competitive carriers in Tennessee.

**Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

A: Yes.

## **EXHIBIT ADE-1**

### **(Overview of Scope of Work)**

- Provide BTES with the technical resources necessary to design and implement its CLEC operations. These technical resources will support the following:
  1. Voice network design, planning, engineering, and implementation
  2. Evaluation & recommendation of Class 5 switching platform
  3. Statement of Work negotiation and administration of deliverables with Class 5 switch vendor
  4. Completion of ILEC and industry required forms for network activation and interconnection
  5. Establishment of Required Codes:  
OCN, CLLI, Point Codes, RAO, BO, CIC, CO (NPA-NXX), etc.
  6. PSTN Integration & Call Through Testing
  7. Integration Testing Support for OSS Flow-through Provisioning
  8. Complex Translations for Rate Center establishment and management
  9. Training for switch operation
  10. Assist in establishing procedures associated with capacity management and reporting
  11. Assist in establishing necessary IELC physical collocation
- Provide BTES with the industry specific experience, and expertise, necessary to move successfully through the Tennessee Regulatory Authority (TRA) approval process and maintain regulatory compliance. The industry specific expertise will support the following:
  1. Completion and submission of application package to the TRA
  2. Representation of BTES in TRA proceedings
  3. Local Service Tariff development & filing
  4. Long Distance Service Tariff development & filing
  5. Access Service Tariff development & filing
- Establish appropriate carrier and vendor relationships critical to the profitable, ongoing operation of a CLEC model. Carrier and vendor relationships will support the following:
  1. Negotiation of Agreement for Interconnection with Sprint Local Services
  2. Negotiation of wholesale contracts with long distance providers
  3. Establishment of carrier billing accounts
  4. Establishment of carrier audit procedures
  5. Establishment of vendor relationships for Carrier Access Billing



- Provide training and support to BTES personnel in order for BTES to operate as a fully, self sufficient service provider. Training and support will include the following:
  1. Project Plan design and development
  2. Ongoing project management
  3. Train and support BTES staff regarding regulatory reporting
  4. Train and support BTES staff regarding industry reporting
  5. Train and support BTES staff regarding switch operations
  6. Train and support BTES staff regarding voice operational procedures
  7. Train and support BTES staff regarding provisioning of third party databases
  8. Assist BTES staff in the development of product offerings
  9. Assist BTES staff in the development of customer support material

**EXHIBIT ADE-2**

**(Consulting Service Agreement)**

## MASTER SERVICE AGREEMENT

This Agreement No. 2005-03 is made between Bristol Tennessee Essential Services ("Client"), with a principal place of business at 2470 Volunteer Parkway, Bristol, TN 37620 and Harbor Network Services, LLC, an Alabama Limited Liability Company ("Consultant"), with a principal place of business at 720 Oak Circle Drive, Mobile, AL 36609.

### WITNESSETH:

WHEREAS, Client desires to enter into this Agreement with Consultant to define and set forth terms and conditions for the performance by the Consultant of specific undertakings contemplated hereby (and as may be specifically set forth herein below) including but not limited to aiding, facilitating and or supporting projects that Client may be presently progressing or is planning to develop, performing general business and telecommunications consulting in respect of Client projects, and assisting with and or undertaking telecom negotiations (featuring in particular CLEC start-up) on behalf of Client;

WHEREAS, Consultant is in the business of providing of such services, and

WHEREAS, in connection with these activities, both Client and Consultant will be providing the other Party, Respectively, with information and materials that may be of a proprietary or confidential nature as may be necessary in the rendition of such services, and

WHEREAS, both the Client and Consultant do hereby agree that these recitals are a part of the contract and are binding upon the parties as covenants and representations rather than mere recitals, and

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, the premises set forth herein above, the terms and conditions set forth herein below, and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged by parties hereto, it is hereby agreed as follows

1. **Services to be Performed by Consultant.** This is a Master Agreement which shall govern the performance of all services to be performed by Consultant to Client, as such, this Agreement contemplates the execution by Client of certain underlying Service Provider Agreements as may be recommended by Consultant. For the purposes of this paragraph, 'Service Provider Agreements' shall mean and include, but shall not be limited to, the following: vendor selection, regulatory sub-contracting agreements, agreements for the provisioning of local dial tone lines, features and trunks, service providers, IXC and long distance agreements, leasing agreements, billing services agreements, back office service provider agreements, legal and regulatory services agreements, business models, and other contracts and agreements as may be recommended (and negotiated) by Consultant from time to time
2. **Consulting Fees.** 'Consulting Fees' shall mean and be deemed to include billable rates or travel expenses, as the case may be, plus, in either or both cases, Interest and Expenses Except as set forth in Paragraph 2.3 in respect of travel expenses, the fees accrued by the Consultant in respect of the performance of Services shall be determined as follows plus Interest and Expenses: for services performed. Consulting Fees shall be billed at a rate clearly stated in a Supplement to this Agreement
3. **Late Fees and Interest.** Late payments by Client shall be subject to late penalty fees of ten dollars (US \$10.00) plus interest of 1.5 % per month from the due date until the amount is paid. Also, the Consultant shall have the right to suspend its performance of Services, without penalty of breach on the part of the Consultant.
4. **Taxes.** The charges included here do not include taxes. If Consultant is required to pay any federal, state or local sales, use, and property or value added taxes based on the services provided under this Agreement, the taxes shall be separately billed to Client. Consultant shall not pay any interest or penalties incurred due to late payment or nonpayment of such taxes by Client.
5. **Expenses.** Client shall reimburse Consultant for expenses that are directly attributable to work performed under this Agreement, Consultant shall submit an itemized statement of Consultant's expenses, Client shall pay Consultant within ten (10) days from date of each statement. Expenses such as, but not necessarily limited to

- i. travel expenses, including airfares, hotels, and highway mileage in company or personal vehicles at 34 5 cents per mile
  - ii. postage and courier services
  - iii. printing and reproduction
  - iv. other expenses resulting from the work performed under this Agreement
6. **Term of Agreement.** This Contract shall be for a period of no less than 8 months after the effective date first below written (the "Term" as used herein) (a facsimile signature shall constitute an original signature) This Contract may be extended on a month-to-month basis upon mutual agreement by both parties
7. **Client Representative.** For reporting and approval purposes for the services hereunder, the Client's designated representative shall be Michael Browder or his designee as designated in writing by Michael Browder
8. **Consultant an Independent Contractor.** Consultant is an independent Contractor, and shall not be deemed, an employee of Client. In its capacity as an independent Contractor, Consultant agrees and represents, and Client agrees, as follows:
  - i. Consultant shall perform all Services hereunder as an independent contractor, and nothing contained herein shall be deemed to create any association, partnership, joint venture, or relationship of principal and agent or master and servant, or employer and employee between the parties hereto or any affiliates or subsidiaries thereof, or to provide either party with the right, power or authority, whether express or implied, to create any such duty or obligation on behalf of the other party.
  - ii. Consultant has the right to perform similar services for others during the term of this Agreement
  - iii. **Place of Work.** It is understood that Consultant's services will be rendered largely at Consultant's facilities but that Consultant will, on request, come to the Client's place of business, at Client's expense, to meet with representatives of the Client
  - iv. **Consulting Hours.** In the performance of the services, the hours Consultant is to work on any given day will be entirely within Consultant's control and Client will rely upon Consultant to put in such number of hours as may be reasonably necessary to fulfill the spirit and purpose of this Agreement.
  - v. Consultant has the sole right to control and direct the means, manner and method by which the services required by this Agreement will be performed.
  - vi. Consultant shall not be required to devote full time to the performance of the services required by this Agreement.
  - vii. Client shall not provide insurance coverage of any kind for Consultant.
  - viii. Client shall not withhold from Consultant's compensation any amount that would normally be withheld from an employee's pay.
9. **Client Deliverables.** Client acknowledges (i) that certain Services and/or deliverables to be provided by Consultant may be dependant on Client providing certain data, information, assistance or completion of various provider contracts (collectively, "Cooperation"), and (ii) that such Cooperation may be essential to the performance of Services and/or the delivery of deliverables by Consultant. The parties agree that any delay or failure by Consultant to provide Services hereunder which is caused by Client's failure to provide timely Cooperation reasonably requested by Consultant shall not be deemed to be a breach of Consultant's performance obligations under this Agreement.
10. **Work Permits, Legal Fees, Certification fees, and Tariff Charges.** Client agrees to pay any and all work permit fees, legal fees, certification fees, tariff charges and other third-party fees including, but not limited to, outside vendor fees, state filing fees, and other similar charges as the same may be incurred by either of the Consultant or Client in respect to the establishment and maintenance by the Client of its telco and performance by Consultant of Services
11. **Delays.** Consultant not responsible for delays caused by others, up to and including, but not necessarily limited to Incumbents, Client service providers, manufacturers, and/or regulatory agencies
12. **Contract Changes.** Any changes to the scope of services outlined, or unforeseen circumstances that may arise, or any dates missed by either party, constitutes a material change and will require a written change document agreed to by both parties and added to this contract as an addendum. If any intended changes or any other events beyond the parties' control require adjustments to this Agreement, the parties shall make a good faith effort to agree on all necessary particulars. Such agreements shall be put in writing, signed by the parties and added to this Agreement as an Addendum

### 13. Proprietary Rights.

- a. Client agrees that all Work Product produced by Consultant for Client hereunder, whether before or after execution of this Agreement, is a valuable and proprietary product of Consultant such as but not limited to the intellectual property of Consultant and shall be the sole and exclusive property of Consultant, subject to Client's ownership of a permanent license to use the Work Product in its business as set forth in subsection (c) below
- b. It is hereby agreed that Consultant has exclusive ownership of all right, title, and interest in the Work Product and any other information generated, including but not limited to copyrights and patents, and Consultant shall have the right to obtain and hold in its own name copyrights, patents, registrations and similar protection which may be available or become available in the Work Product. Client agrees to give Consultant, its designees, or assigns, all assistance necessary to perfect such rights, title, and interests
- c. Nothing herein is intended to preclude Client from using any information furnished by Consultant pursuant to this Agreement for its internal business purposes, so long as the following conditions are met:
  - i. Any dissemination of the Work Product shall be used for internal business purposes only.
  - ii. All ownership rights in any information or Work Product supplied by Consultant to Client shall remain under copyright of Consultant and all rights appertaining thereto without exception, shall vest with Consultant.
  - iii. Consultant is not held accountable for any interpretation or misinterpretation of the information provided in the work product as it may or may not apply to any other entity

14. **Background Rights.** Consultant owns or holds various materials in existence before the start date of this Agreement ("Consultant's Materials"). Consultant's tools, processes, pre-existing materials, processes, methodologies and derivative works thereof (collectively, the "Consultant Materials") which Client acknowledges and agrees are owned by Consultant.

### 15. Confidentiality

- a. **Definition; Term of protection.** Subject to all provisions of Tennessee law relating to access to public records and open meetings, all documents and other information which shall be submitted or communicated by either of the Parties within the context of this Agreement or otherwise related to the Consultant's performance of the Services ("Information") shall remain the exclusive property of the Party which shall have produced such Information (the "Owner") and shall be held by the other Party (the "Recipient") in trust and treated as confidential during the period of validity of this Agreement and after for a period extending three (3) years from the date of termination of this Agreement.
- b. **Non-Disclosure.** The Recipient of Information shall use its best efforts to protect Information from disclosure to others using the same degree of care which it uses to protect its own confidential or proprietary information of like importance, and in no event using less than a reasonable degree of care. The Consultant further agrees that Information received by it in respect to the performance of the Services shall be used only as expressly authorized or directed by the Client and or as otherwise contemplated by this Agreement, and not for any other purpose. Notwithstanding the two previous sentences, the Consultant may disclose Information received by it hereunder:
  - ii. to Affiliates who agree in advance, in writing, to be bound by this Agreement,
  - iii. to employees and independent contractors and employees and independent contractors of its Affiliates who have a need to know for the purposes of this Agreement and who agree to protect the received Information from unauthorized use and disclosure by and under the terms of a written Non-Disclosure Agreement;
  - iiiii. to potential underlying carriers or vendors as specifically approved by the Client and subject to a non-disclosure agreement between the Consultant and the potential vendor or underlying carrier. A Recipient shall not otherwise disclose any Information to a third party without the prior written consent of the Owner.
- c. **Exceptions.** The restrictions contained herein this Agreement on the use and disclosure of Information, featuring in particular Section 14, shall not apply to information that:
  - i. was publicly known at the time of Owner's communication thereof to Recipient;
  - ii. becomes publicly known through no fault of Recipient,
  - iii. was in Recipient's possession free of any obligation of confidence or non-disclosure at the time of
  - iv. Owner's communication thereof to Recipient;
  - v. is developed by Recipient independently of and without reference to any of Owner's Information or
  - vi. other information that Owner disclosed in confidence to any third party; or
  - vii. is rightfully obtained by Recipient from third parties authorized to make such disclosure without
  - viii. restriction, or
  - ix. is identified by Owner as no longer proprietary or confidential

- d. **Mandatory Disclosure.** In the event Recipient is required by law, regulation or court order to disclose any of Owner's Information, Recipient will promptly notify the Owner in writing prior to making any such disclosure in order to facilitate Owner seeking a protective order or other appropriate remedy from the proper authority, and Recipient hereby agrees to cooperate with Owner in seeking such order or remedy.
- e. **Liability and Damages.** The Parties acknowledge that Information is unique and valuable and that a disclosure in breach of this Agreement will result in irreparable injury to Owner for which monetary damages alone would not be an adequate remedy. Therefore, the Parties agree that in the event of a breach or threatened breach of this Article 5, the Owner shall be entitled to specific performance, and injunctive and other equitable relief as a remedy for any such breach or anticipated breach without the necessity of posting a bond. Any such relief shall be in addition to and not in lieu of any appropriate relief in the way of monetary damages.

**16. STANDARD OF PERFORMANCE; SOLE AND EXCLUSIVE STANDARD BY WHICH CONSULTANT'S PERFORMANCE IS MEASURED:**

- a. Consultant will perform its services under this Contract as an independent contractor/ consultant utilizing reasonable care and skill in accordance and consistent with customary industry standards. This standard of care is the sole and exclusive standard of care that will be applied to measure Consultant's performance of its services or the creation of its work product
- b. All advice, recommendations, finding and conclusions made by Consultant will be made to the best of Consultant's knowledge opinion and belief, based upon information made available to Consultant at the time of review, and upon a variety of factors which include, but are not limited to, the following: federal and state laws, rules, codes, regulations and ordinances and market conditions. A change in any of the factors upon which the review is based may adversely affect the advice, recommendations findings, and conclusions expressed by Consultant.
- c. On occasion, Consultant's performance of the Assessment under this Contract will involve discussions with governmental agencies or third parties which the governmental agency or third party does not necessarily document, and thereafter, there arises a difference of opinion as to what was represented by the agency or third party in those discussions. To the extent Consultant communicates those agency or third party representations to the Client, Consultant shall have no responsibility or liability, in contract or tort, to Client so long as Consultant communicated the representations to the best of Consultant's knowledge, opinion and belief

**17. Limitation on Consultant's Liability to Client**

- a. Consultant shall not be liable in any way for services that are performed or work product prepared in accordance with the prescribed standard of care or for the failure to discover any condition that, pursuant to that standard, could not reasonably have been discovered as a result of the services performed or work product prepared by Consultant. Consultant's recommendations arise from information provided by the Client at the time of the services or work and do not reflect any or all conditions that may arise later, or that may occur outside of the surveillance of the consultant. Recommendations or findings are submitted for your approval and implementation.
- b. In no event shall Consultant be liable to Client for lost profits of Client or special, incidental or consequential damages (even if Consultant has been advised of the possibility of such damages).
- c. Consultant's total liability under this Agreement for damages, costs and expenses, regardless of cause, shall not exceed the total amount of fees paid to Consultant by Client under this Agreement.

**18. Resolving Disputes.** If a dispute arises under this Agreement, the venue for any legal proceeding shall be Bristol, Sullivan County, Tennessee.

- a. In any litigation arising out of this Agreement, the prevailing party shall be entitled to reasonable attorney fees, costs and expenses in addition to any other relief to which it may be entitled

**19. General Provisions**

- a. **Sole agreement:** This is the entire Agreement between Consultant and Client. The parties agree that they may amend this agreement only by a written duly executed addendum.
- b. **Applicable law:** This Agreement will be governed by the laws of the State of Tennessee
- c. **Waiver.** Failure by either party at any time to enforce any obligation by the other party, to claim a breach of any term of this Agreement or to exercise any power agreed to hereunder will not be construed as a waiver of any right, power or obligation under this Agreement, will not affect any subsequent breach, and will not prejudice either party as regards to any subsequent action
- d. **Paragraph Headings.** Paragraph headings are for convenience only and shall not be a part of the Terms and Conditions of this Agreement.
- e. **Notices:** All notices and other communications given in connection with this Agreement shall be in writing and shall be deemed given as follows:

- i. When delivered personally to the recipient's address as appearing in the introductory paragraph to this Agreement;
- ii. Three days after being deposited in the United States mail, postage prepaid to the recipient's address as appearing in the introductory paragraph to this Agreement, or
- iii. Notice is effective upon receipt provided that a duplicate copy of the notice is promptly given by first class or certified mail, or the recipient delivers a written confirmation of receipt.
- iv. Any party may change its address appearing in the introductory paragraph to this Agreement by giving notice of the change in accordance with this paragraph.

IN WITNESS WHEREOF, the parties have signed this agreement as of the day and year indicated below.

**AGREED AND ACCEPTED:**

Harbor Network Services, LLC

By

Alan D. Ellison  
(Authorized Signature)

Title:

President

Name:

Alan D. Ellison  
(Type or Print)

Date:

8-4-05

Bristol Tennessee Essential Services

By

R. Michael Browder  
(Authorized Signature)

Title:

General Manager

Name:

R. Michael Browder  
(Type or Print)

Date:

8/4/05

Before the

TENNESSEE REGULATORY AUTHORITY

IN RE

APPLICATION OF BRISTOL TENNESSEE ESSENTIAL SERVICES  
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY  
TO PROVIDE TELECOMMUNICATIONS SERVICES AS A  
COMPETITIVE LOCAL EXCHANGE CARRIER

DOCKET NO \_\_\_\_\_

DIRECT TESTIMONY AND EXHIBITS  
OF  
DWIGHT S WORK

SEPTEMBER 9, 2005



1        **Q.        What is your name and business address?**

2        A        My name is Dwight Work My business address is 209 Sixth Avenue North, Nashville,  
3                   Tennessee 37219-1903

4        **Q.        What is your occupation?**

5        A        I am Director of Utility Consulting Services for Work & Greer, PC, a certified public  
6                   accounting firm

7        **Q.        What degrees and licenses do you hold?**

8        A        I received a Bachelor of Science degree from Austin Peay State University in 1967  
9                   with a major in mathematics I received a Master of Arts degree from Austin Peay  
10                  State University in 1970 with a major in mathematics I am a Certified Public  
11                  Accountant licensed to practice in the states of Alabama, Kentucky and Tennessee

12       **Q.        What is your professional experience?**

13       A        I was a financial analyst with the Accounting Division of the Tennessee Public  
14                  Service Commission from August 1974 through July 1975 I was Assistant Director of  
15                  the Accounting Division of the Tennessee Public Service Commission from July 1975  
16                  through May 1980 I testified for the staff on a variety of issues involving every utility  
17                  industry regulated by the Tennessee Public Service Commission during that period

18                  Since leaving the Commission in 1980, I have been employed by Work & Greer, PC  
19                  as Director of Utility Consulting Services In this capacity, I provide consulting  
20                  services to regulated and non-regulated utilities in the electric distribution, natural gas  
21                  distribution, telecommunications, water distribution, and wastewater distribution  
22                  industries

1 I have presented testimony before the Kentucky Public Service Commission, the  
2 Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the  
3 Tennessee Regulatory Authority and the Virginia State Corporation Commission I  
4 have also presented testimony on utility issues before the Chancery Court of  
5 Davidson County, Tennessee and the Chancery Court of Dickson County,  
6 Tennessee

7 I have spoken at meetings of the American Public Gas Association, the Kentucky  
8 Gas Association, the Southern Gas Association, the Tennessee Association of Utility  
9 Districts, the Tennessee Gas Association and the Tennessee Valley Public Power  
10 Association I have presented seminars on utility issues for utility management  
11 groups of the same associations and for clients

12 **Q. On whose behalf are you testifying in this proceeding?**

13 A I am testifying on behalf of Bristol Tennessee Essential Services ("BTES")

14 **Q. What is the purpose of your testimony in this docket?**

15 A BTES requested me to assist them in developing a Cost Allocation Manual ("CAM") I  
16 will testify about the allocation procedures and the CAM

17 **Q. What are the goals of cost allocation?**

18 A Allocation methodology is not an exact science Therefore, the goal of an allocation  
19 methodology is not to guarantee a perfect allocation among business units Instead  
20 the goals are (1) to help ensure just and reasonable rates for the ratepayers of the  
21 non-competitive business unit, (2) to prevent or limit, to the extent possible, any  
22 cross-subsidization between the non-competitive services and the competitive  
23 services, and, (3) to minimize the time and expense necessary to record and audit  
24 the transactions

1       **Q.       Did BTES already have allocation procedures in place?**

2       A       BTES provided electric distribution services prior to initiating its Cable and Internet  
3       Business Unit and filing to become a Competitive Local Exchange Company. It had  
4       procedures in place to allocate among various electric system accounts. However, it  
5       obviously did not have procedures in place to allocate among business units.

6       **Q.       Did BTES have a Cost Allocation Manual?**

7       A       No, they did not have a written manual similar to the manual provided in this  
8       proceeding.

9       **Q.       Does BTES now have a Cost Allocation Manual?**

10      A       Yes, it does. I worked with the management team of BTES to develop the cost  
11      allocation manual attached as Exhibit B to the Application of BTES.

12      **Q.       What are the general principles followed in the Cost Allocation Manual?**

13      A       The primary principle is that the Electric Business Unit of BTES should not subsidize  
14      the Cable and Internet Business Unit nor the Telephone Business Unit. This principle  
15      complies with regulatory theory and principles and with TCA § 7-52-402 and TCA §  
16      7-52-603.

17      The Cost Allocation Manual complies with the applicable concepts of the cost  
18      allocation rules of the Federal Communications Commission ("FCC") published at  
19      Title 47, Part 64, Section 901 of the Code of Federal Regulations. The cost allocation  
20      manual also complies with the concepts of the Guidelines for Cost Allocations and  
21      Affiliate Transactions adopted by resolution at the 1999 summer meeting of the  
22      National Association of Regulatory Utility Commissioners ("NARUC"). Both of these

1 publications leave the details of the allocation methodology to the affected  
2 companies to develop

3 **Q. Would you summarize the procedures for the allocation of costs under the**  
4 **Cost Allocation Manual?**

5 A BTES will directly assign costs to a specific business unit whenever possible. This is  
6 done through timesheets or assignment of personnel to a specific business unit.

7 When direct assignment to a specific business unit is not possible, BTES will review  
8 the cost to determine the origin of the cost. If BTES can determine the origin of the  
9 cost, then BTES will allocate the cost in the same manner as originator of the cost.

10 When the origin of the cost cannot be determined, BTES will review the cost to  
11 determine if it relates to another cost category for which a direct assignment or  
12 allocation is available.

13 If BTES can find no direct or indirect relationships, then BTES will allocate the cost  
14 using a general allocator.

15 BTES will employ approximately 70 people when it adds the additional business  
16 units. Of this amount, approximately 40 will directly assign their time to a business  
17 unit using daily time sheets. BTES will assign two people to a specific business unit.  
18 The remaining number work with more than one business unit on a daily basis. Using  
19 time sheets for these employees is impracticable. BTES will develop percentages to  
20 use to allocate the time of these employees. It will develop these percentages using  
21 time studies or other appropriate indicators. BTES will update these percentages no  
22 less frequently than annually. It will revise the labor allocations whenever work  
23 assignments or other pertinent circumstances change.

1           **Q.     Has the Tennessee Valley Authority ("TVS") reviewed the Cost Allocation**  
2           **Manual?**

3           A.     Yes, they have. The contract between BTES and TVA states: "Municipality may  
4           use property and personnel jointly for the electric system and other operations,  
5           subject to agreement between Municipality and TRA as to appropriate  
6           allocations, based on direction of effort, relative use or similar standards."  
7           Pursuant to that requirement, TVA has reviewed and approved the cost  
8           allocation procedures described in my testimony. The letter from TVA to Dr.  
9           Browder is attached to my testimony.

10          **Q.     Does this conclude your testimony?**

11          A.     Yes, it does.

AFFIDAVIT

I, Dwight S Work, do hereby affirm that the foregoing testimony and attached exhibits are true and correct to the best of my knowledge and belief

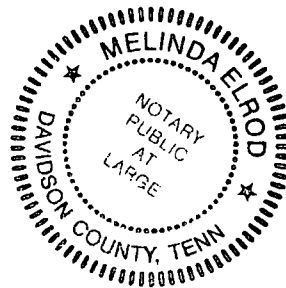
Dwight S. Work

Sworn to and subscribed before me

This 9th day of September 2005

Melinda E. Elrod

NOTARY PUBLIC



My commission expires on September 22, 2007



Tennessee Valley Authority, 106 Tri-Cities Business Park Drive, Gray, Tennessee 37615-3497

September 9, 2005

Dr. R. Michael Browder  
General Manager  
Bristol Tennessee Electric System  
Post Office Box 549  
Bristol, Tennessee, 37621-0549

Dear Mike:

TVA has reviewed the BTES Cost Allocation Manual and has the following comments:

- We commend BTES efforts in preparing the proposed cost allocation plan.
- The proposed plan provides a good guideline for allocating joint costs between the three business units.
- We are in agreement with the approach and see no issues with the allocation methods proposed.
- The annual review of methodology proposed by BTES will enable them to ensure adequate joint cost allocation.

Please let us know if you have additional questions or would like to discuss further.  
Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Scalf".

Michael L Scalf  
General Manager  
Northeast District, Customer Service

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**September 12, 2005**

*IN RE: Application of Bristol Tennessee* )  
*Essential Services for a Certificate of* )  
*Convenience and Necessity to Provide* )  
*Competing Telecommunications Services* )

Docket No.: \_\_\_\_\_

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**PRE-FILED DIRECT TESTIMONY  
OF  
BETH RINGLEY,  
DIRECTOR OF MANAGEMENT SERVICES,  
BRISTOL TENNESSEE ESSENTIAL SERVICES**

---



1 I, Beth Ringley, do hereby testify as follows in support of the Application of Bristol Tennessee  
2 Essential Services ("BTES") for a Certificate of Convenience and Necessity to Provide  
3 Telecommunications Services (the "Application") to provide telecommunications services  
4 throughout the State of Tennessee:

5 **Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

6 A: My name is Beth Ringley, and I am the Director of Management Services of BTES.  
7 BTES' principal office is located at 2470 Volunteer Parkway, Bristol, Tennessee 37620.

8  
9 **Q: PLEASE BRIEFLY DESCRIBE YOUR DUTIES.**

10 A: As Director of Management Services, I have the responsibility for strategic planning and  
11 implementation, human resources, customer service, marketing, public relations,  
12 communications and other duties. BTES' operations presently include electric operations  
13 as well as cable and Internet operations. I have recently been actively involved in the  
14 development of the BTES Cable/Internet Business Plan and the implementation of these  
15 services. I will also have similar responsibilities for telephone services following  
16 certification of BTES' telephone operations.

17  
18 **Q: PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL  
19 BACKGROUND.**

20 A: I am a graduate of Virginia Intermont College with a Bachelor of Arts degree in Business  
21 Management. In 2004, I completed a Master of Science degree in Engineering  
22 Technology from East Tennessee State University, where I am now pursuing a doctorate  
23 in Educational Leadership and Policy Analysis.

1 Prior to coming to Bristol Tennessee Essential Services in October 1999, I served as Vice  
2 President of Community & Governmental Relations for the Bristol Chamber of  
3 Commerce.

4  
5 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A: The purpose of my testimony is to support BTES' financial qualifications as outlined in  
7 the Application and to address the development and implementation of BTES' cost  
8 allocation manual.

9  
10 **Q: PLEASE DESCRIBE THE STRUCTURE OF BTES' TELEPHONE BUSINESS**  
11 **UNIT FROM AN ACCOUNTING AND COST ALLOCATION STANDPOINT.**

12 A: BTES has created a new Telephone Business Unit separate from its Electric Business  
13 Unit and Cable and Internet Business Unit for purposes of allocating costs and separately  
14 accounting for its telephone operations. Services described in the Application will be  
15 provided through the BTES Telephone Business Unit.

16  
17 **Q: HAS BTES DEVELOPED ACCOUNTING AND COST ALLOCATION**  
18 **METHODS TO ACCOMMODATE THE TELEPHONE BUSINESS UNIT?**

19 A. Yes. BTES' Cost Allocation Manual is attached as **Exhibit B** to the Application, and I  
20 have been responsible within BTES for supervising and internally coordinating the  
21 development of the Cost Allocation Manual. I am also responsible for working with  
22 BTES' various departments on matters relating to the Cost Allocation Manual and its  
23 implementation.

1  
2 **Q. HAS BTES MODIFIED ITS EXISTING ACCOUNTING SYSTEM TO**  
3 **ACCOMMODATE THE TELEPHONE BUSINESS UNIT AND TO IMPLEMENT**  
4 **THE COST ALLOCATION MANUAL?**

5 A. Yes. We are adding point accounts to our existing chart of accounts. A .75 account will  
6 be a telephone account. We will be able to mark each account with a code to specify the  
7 business unit, in order to print separate financial statements.

8  
9 **Q: TURNING NOW TO THE APPLICATION, ARE ALL OF THE STATEMENTS**  
10 **IN BTES' APPLICATION CONCERNING THE FINANCIAL ABILITY OF BTES**  
11 **TO PROVIDE THE APPLIED FOR SERVICES TRUE AND CORRECT TO THE**  
12 **BEST OF YOUR KNOWLEDGE, INFORMATION AND BELIEF?**

13 A: Yes.  
14

15 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A: Yes.